

SECRET AND PERSONAL

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SUBJECT CC MASTER



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From the Private Secretary

27 July 1987

INTEREST RATES

The Prime Minister and Chancellor this morning discussed policy towards interest rates.

The Chancellor noted that the CBI survey to be published tomorrow showed good results. However there was concern about the high rate of growth of the economy and there were signs of some looseness in financial conditions. Action now to raise rates by a half per cent would avoid the Government giving an appearance of reluctance, and might forestall a possible larger increase later.

The Prime Minister was very doubtful about the wisdom of an increase now. It could have an effect on mortgage rates, pushing up the RPI ahead of the September figure on which social security upratings were based. It would also harm exporters and this would be particularly damaging at a time when exports seemed to be turning down. An increase now would simply raise the starting level for any further increases.

The Chancellor noted that he might need to return to the Prime Minister on this within the next week or so.

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