

PRIME MINISTER

You have a bilateral with the Chancellor tomorrow afternoon. There are no specific topics on the agenda.

What I know he, and I think you, would like to discuss is the state of the economy as we reach the end of the year. Friday's trade figures will be very close to the estimates you saw at the weekend. That is, £1½ billion this month. The figure for the year will be around £14 billion as opposed to the £13 billion which the Chancellor quoted in his autumn statement. The money supply/credit figures appear to have shown little change for the last twelve months, but I gather if one breaks them down into three monthly periods, the effect of the increase in interest rates is becoming apparent.

The question for the Chancellor I think is whether the economy is slowing down at the right rate. And you might also wish to touch on the implications of continued high interest rates for the exchange rate, although this has not yet reached the peak at which action might be considered necessary.

I suspect you will have other ideas for discussion as well. If Paul is not back Andrew or I will sit in.

PPB

P.A. BEARPARK

20 December 1988