

SECRET



*File to 03
mtg record. 12*

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

24 May, 1989.

SUBJECT CCMASTER

INTEREST RATES

The Chancellor came to see the Prime Minister at 0925 this morning to continue the discussion at their bilateral yesterday about the position in the markets.

The Chancellor said that he had considered the position further this morning with Treasury and Bank advisers. The exchange rate had weakened further overnight, and the unanimous conclusion was that interest rates should be raised by 1 per cent. The Prime Minister agreed that, in the circumstances, there was no choice but to take this action. It was agreed that the Chancellor would arrange for the Bank of England to signal the 1 per cent increase at 0945 this morning.

Paul Gray

Alex Allan, Esq.,
HM Treasury.

SECRET