

PRIME MINISTER

BILATERAL

The main item for discussion is the Budget.

I suggest you concentrate on the PSBR for 1986-87. You should press the Chancellor for firm assurances about the figure of £7 billion. Is this a real, unmassaged, figure? Does it include any margin for error? (I understand that the PSBR for February is likely to leave borrowing for the first eleven months of 1985-86 at under £3 billion.)

You could also ask when the Chancellor intends to bring about the expected fall in base rates: on Budget Day or after? Three month inter-bank rates are at present at $11\frac{3}{4}$ per cent, which would allow a one per cent fall in base rates.

On other matters:

- (i) JMB seems to have gone fairly quiet; (1)
- (ii) you may want to discuss the morning's meeting on BL;
- (iii) a paper on electricity prices is now in preparation. The Chancellor of course is concerned not only about the costs of having to provide extra support for the NCB, but also about the need for an increase in electricity prices to give the sale of British Gas a good start and to boost the receipts. But Ministers need to know the facts about the problem before they reach a decision.

DN

DAVID NORGROVE

12 March 1986

EL3AYG