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From the Private Secretary

11 March 1988

BUDGET SPEECH

The Prime Minister has not yet had a chance to go through the draft speech in detail. She will be doing so at Chequers this evening, and we have arranged for her copy of the draft, together with comments, to be taken to Dorneywood tomorrow lunchtime.

But the Prime Minister has considered the material in paragraphs B15-B16 and C2-C5 on exchange rate and interest rate policy. She is not happy with the present draft of these sections, and I enclose suggested redrafts that meet her concerns.

Paul Gray

Alex Allan, Esq.,
H.M. Treasury.

B15 There are some who believe that the only solution to these imbalances lies in a further substantial fall in the dollar. But that is to overlook the fundamental causes of the imbalances.

B16 Success in reducing these imbalances depends on countries putting the right fiscal and monetary policies in place, and keeping them there. This will also strengthen our ability to bring about greater exchange rate stability, with the benefits of greater certainty that brings to business. I can assure the House that we shall continue to play our full part in the process of international co-operation to achieve these ends.

C2 The medium term financial strategy, now entering its ninth year, will continue to provide the framework for reducing the growth of money GDP, and hence inflation, over the medium term.

C3 The gradual eradication of inflation requires a prudent fiscal stance and a steady reduction in monetary growth in the medium term. While I shall continue to take account of broad money, or liquidity, as last year there will be no explicit targets. For narrow money, MO, the target range for 1988-89 will be 1-5 per cent, as foreshadowed in last year's MTFS.

C4 Short term interest rates remain the essential instrument of monetary policy. Within a consistent and comprehensive assessment of monetary conditions, I will continue to set interest rates at the level necessary to ensure that inflationary pressures are not accommodated.

[C5 Deleted]