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for P. GRAY.

FA.

[Signature]

PRIME MINISTER

BUDGET SPEECH: PASSAGES ON EXCHANGE RATE AND MONETARY POLICY

Paragraphs B15-B16 and C2-C5 of the draft Budget speech will I think cause you difficulties. You will want to consider carefully how to handle discussions with the Chancellor about this. But perhaps the best approach is to offer him specific alternative drafts. I attach some possible alternatives.

You will also want to consider further what the Chancellor proposes to say about his target for the basic rate of income tax - see Alex Allan's covering letter and paragraphs L40-L41.

One option would be to add a qualifying reference to tax thresholds - see the manuscript addition to L41.

Recd.

PAUL GRAY

11 March 1988

SLHATJ

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10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

PRIME MINISTER

BUDGET SPEECH

1. I have given the Chancellor the revised passages on exchange rates (copy enclosed). I have told him you will send him any later comments on the speech, to reach Dorneywood by lunchtime tomorrow (Schuday); we have laid on a car for Cleaves.
2. The Chancellor will ring you for Dorneywood tomorrow with any reactions to your comments.

BR CG

11/3

N.B. There are 2 copies of the draft speech enclosed; please send one on to the Chancellor and retain the other so that you each have a text in front of you for any phone call! I suggest you then return the other copy to us in the hot box.