

PRIME MINISTER

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FINAL BUDGET DOCUMENTS

I attach:

Flag A: the formal minute from the Chancellor summarising the Budget package. There is no need for you to go through this in detail, as you are already familiar with all the key points.

Flag B: a further minute from the Chancellor on the MTFS. I suggest you do look at this carefully. See separate comments below.

Flag C: draft of the Budget speech itself; this is in two main sections, on tax and the economy. Again, you will want to go through this carefully, and the Chancellor would welcome your detailed drafting comments.

MTFS (Flag B)

You will want to consider what the Chancellor has to say both about fiscal policy and monetary policy.

On fiscal policy, he proposes including in the MTFS a gradual return towards Budget balance rather than maintaining the present level or surplus. I think this is right. Although high levels of debt repayment have obvious attractions, it is unrealistic to plan for the present level of PSDRs continuing. We only need such high levels at present because the personal sector is not saving enough. As the economy readjusts and personal saving picks up again, one would expect to see the PSDR coming down (as Alan Walters has argued). So it would involve an exceptionally tight fiscal policy to try to keep the PSDRs up; as the Chancellor says this would conflict with your objectives for the tax burden.

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On monetary policy, the Chancellor proposes to include in the MTFS the same figures as already published for the period up to 1991-92 - ie. a range of 1-5 per cent in 1989-90, and 0-4 per cent in each of 1990-91 and 1991-92. For the new final year, 1992-93, the Chancellor now proposes publishing a lower figure of -1 to 3 per cent. This gives a helpful signal of planned further squeezing of inflation.

Budget Speech draft (Flag C)

I have marked some small comments in the margin.

It would be helpful if you are able to have a look at the draft speech before lunch time on Saturday, so that we could have a brief word after Alan Greenspan leaves and I can then phone through comments to the Treasury. Alternatively, if you had any major worries you could then yourself phone the Chancellor in Leicestershire.

*Paul.*

PAUL GRAY

10 March 1989

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