

PRIME MINISTER

BILATERAL WITH THE CHANCELLOR: 14 MARCH

Although you had a long talk with the Chancellor last night, I am assuming that you still wish to have the normal weekly bilateral with him which had already been fixed for tomorrow afternoon.

You agreed the final shape of the Budget package at lunch time. So there is nothing further to discuss on the Budget measures per se.

But you will want to consider the various other key announcements that accompany the measures, in particular the economic forecast and the MTFS. The attached minute from the Chancellor addresses those aspects.

I suggest you work through this note at tomorrow's bilateral. As regards the forecast, the most important point is the inflation forecast; you will see the Chancellor proposes a figure of 7 per cent for the 1990 Q4 RPI, compared with 5 3/4 per cent at the time of the Autumn Statement.

As regards the MTFS, you have already seen the proposed fiscal projections, which I have annotated at paragraph 8 of the Chancellor's minute. The main aspect you will want to consider now is what is to be said about monetary policy. This is covered in paragraphs 10-14 of the Chancellor's note.

You will want to note in particular the target range for MO, and the handling of the ERM. The Chancellor has not at this stage attached a full draft of the MTFS; I am told this is still being actively worked on. But you will want to ask the Chancellor for a sight of it by, say, Thursday night, so that you have a chance to look at it before the end of the week while there is still time to offer detailed comments.

I have also suggested to the Chancellor's Office that, like his predecessor, he may want to show you over the weekend a draft of the Budget Speech itself.

PG *Free*13 March 1990

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