

PRIME MINISTER

Visit of Treasury Secretary Regan

Secretary Regan is calling on you on his way to Brussels where, together with Shultz, Block, Brock and Baldrige, he is having meetings with Thorn and other leading members of the European Commission. The background to this is set out in the telegram at Annex A.

Attached are the briefs for this visit. There are likely to be three issues:

(i) US Economy - see brief at Annex B.

The paradox is that inflation is low and the economy is still growing, so why worry? The disturbing signs are that despite strong growth, the budget deficit remains high at around \$200bn. This is keeping interest rates up, the exchange rate up, and weakening the trade balance. The trade deficit could reach £65-70bn this year and more next.

As John Redwood's note indicates, this could all be a lull before the storm. The solution is, of course, to reduce the budget deficit.

You should express our worries about the balance of policy and probe for signs of any movement on the budget deficit.

(ii) International Debt, Brazil - see brief at Annex C.

You could ask Secretary Regan how he sees the prospects on international debt and seek his view of the Brazilian package. He might press you on export credit. You can reply that the UK has done a great deal in relation to its improvements in trade with Brazil. The extra export credit seems to have been secured. What is the point of offering more medium-term export credit when it is proving necessary to reschedule the existing credits. You could go over to the attack and say that you understand the £1.25bn of

/ US export credit

US export credit is short-term, and therefore of lower quality than had originally been assumed. Brazil still has access to US short-term credits.

(iii) Unitary Taxation - see brief at Annex D which sets out the background and line to take.

The main objective should be to register no lessening in our concerns and to establish from Secretary Regan the prospects for his working group.

AT

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