

26.

SECRET

PRIME MINISTER

BILATERAL WITH THE CHANCELLOR

You are seeing the Chancellor tomorrow afternoon for half an hour at 1730.

I suggest you concentrate on the markets and oil prices.

Despite the disagreement last Friday, I believe the Chancellor deserves a good deal of credit for the relatively smooth fall in the exchange rate and also for avoiding a rise in interest rates.

I understand that the Bank have been pressing him very hard almost every day arguing that without a rise in interest rates the exchange rate was likely to fall in a damaging way. His meeting with you last Friday represented an eventual agreement following very substantial pressure.

He is also now framing his Budget against a particularly difficult background. You are, as you know, giving him supper on Sunday night to allow an extended discussion about the Budget.

You might also discuss with him the unemployment figures and the CBI Trends Survey published today. There has clearly been a softening in the economy during the last few months. Is this affecting the Treasury's latest assessment of the prospects?



DN

28 January, 1986.

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