

PRIME MINISTER

BILATERAL WITH THE CHANCELLOR

Possible subjects for discussion are as follows.

Markets. Professor Griffiths saw recently a paper prepared by the Bank for their regular meeting with Peter Middleton about the markets. The Bank expressed serious concern about the growth in liquidity reflected by the strong growth of Sterling M3. They wish to be very cautious about a further reduction in interest rates. The Treasury seem to be rather more relaxed, pointing to the very good picture on inflation and also the lack of growth in the economy.

The inter-bank rate has begun to move down over the last few days and now stands at 10<sup>3</sup>/16 per cent for three month money. The economy is probably suffering from the very sharp increase in interest rates in January last year, sustained in part throughout the year, and from the tightening of fiscal policy implied by the low outturn for the PSBR. Base rates are only 1 per cent below their level of December last year, and the benefits of lower oil prices will take some time to come through. How does the Chancellor see the risks?

Tax and public expenditure. The Chancellor is giving two speeches in Birmingham on Friday and you have Scotland, CBI and the Women's Conference coming up. You could discuss how the Government is to get the message across about the need for lower tax. But everybody expects you and the Chancellor to argue for lower tax. What other Ministers could be brought in to help? (Lord President, Lord Young, Mr. Ridley?)

Follow-up to the Budget. The Chancellor could tell you about reactions to his proposals for profit sharing and

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Personal Equity Plans. There are also problems. There are signs of a campaign for a further reduction or abolition of stamp duty on ADRs (Lord Hanson has written to you about this - the Treasury are providing a reply). There are also problems about the measures the Chancellor has taken to prevent the use of charities for tax avoidance, with fears that they will hit legitimate charities. (Sir Maurice Laing and others have written to you about this - again draft replies are in preparation.)

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