

PRIME MINISTER

BILATERAL WITH THE CHANCELLOR

You have only a short bilateral with the Chancellor tomorrow. He wants to give you a first indication of the public expenditure picture and to tell you where the Treasury thinking has got to so far on the tactics.

It would be better if the Chancellor explained the position to you in his own words. But I suggest that tomorrow you should certainly not express any firm views. It would I am sure be dangerous to give the Treasury even a preliminary steer on the basis of so short a meeting. I am arranging a longer meeting for next week.

The other possible subject is the markets. A number of factors have caused the exchange rate to strengthen in a way which is uncomfortable. Yet we are not in a position to reduce interest rates.

*DN*

David Norgrove

11 June 1986

*mt*