

CP/PI copy hAW
MCS

SECRET

Prime Minister *ccan* **23**
pd

I am told that the undisclosed band
may well be reduced by 1/2% on Monday.

MCS 29/1

PRIME MINISTER
INTEREST RATES

1. The appreciation of sterling this week suggests that it would be a propitious time to take action to move dealing rates down *again*. another half a percentage point. Although it looks likely that the percentage increase of M3 during the month will be about 1 1/2%, all the information suggests that the narrow aggregates will be well contained.
2. I have spoken to the Bank (John Fforde) about the need to take every opportunity to reduce interest rates under these favourable circumstances. The Bank were rather hesitant and prefer to wait until next week when new pieces of information, such as the American money supply figures and further information on monetary aggregates will be available. I consulted with Peter Middleton and we are agreed that, provided there are no drastic changes in the environment, next week would be an appropriate time to put some pressure on the dealing rates. I believe that the Chancellor will be writing to you along these lines.
3. I do not think there is any need for your intervention at this stage. If we get into any difficulty next week, then I will come and see you immediately.

29 January 1982

ALAN WALTERS

SECRET