

SECRET

14

ALO  
LOSTANI



10 DOWNING STREET  
LONDON SW1A 2AA

*From the Principal Private Secretary*

2 June 1988

INTEREST RATES

The Prime Minister and the Chancellor of the Exchequer had a short discussion this morning about interest rates.

The Chancellor explained that recent developments in the foreign exchange markets suggested that there was a strong case for an immediate increase of  $\frac{1}{2}$  per cent in interest rates. The Prime Minister said that she agreed with this judgement. The Chancellor said that it might be necessary to increase interest rates by a further  $\frac{1}{2}$  per cent before too long. The Prime Minister hoped that this would not be the case, because of the effect on mortgage rates. But she agreed that if higher interest rates were necessary, they should be increased.

N. L. WICKS

Alex Allan, Esq.,  
H.M. Treasury.

SECRET