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IMPLICATIONS OF LOWER INTEREST RATES FOR THE FORECAST

I have seen Mr Riley's assessment in his minute to you of 13 February of the implications of the forecast of setting interest rates equal to the rate of inflation.

I have noted Mr Riley's conclusions; but the relationship between short-term interest rates and sterling M3 is far less certain, far less mechanistic, and in my judgement significantly less gloomy than Mr Riley implies.

NIGEL LAWSON
 16 February 1981