

341/1

SECRET

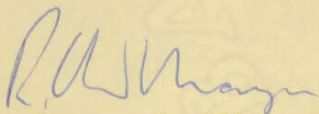
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NOTE FOR RECORD

Copies to The Deputy Governor
Mr Fforde
Mr Dow
Mr Blunden
Mr Page
Mr Loehnis
Mr George
Mr Goodhart
Mr Walker
Mr Byatt

The Gpi called on the CE 4 PM

The Governor will call on the Chancellor at 9.30 am and on the Prime Minister at 3.00 pm on Wednesday 3 September.



Governor's Office HO-P
2 September 1980
R C W Mayes (4421)

THE GOVERNOR
has seen

Also attached is EAJG's draft memo
announced on gilt repos.
2/9

— heard

MEETING WITH THE CHANCELLOR
9.30 AM WEDNESDAY 3 SEPTEMBER

JB

EAJG 2/9 - eco.
CAEG 2/9 - ED.

You may wish to have a (longish) list of possible subjects
which might come up with the Chancellor tomorrow.

1 Monetary and exchange rate policy

pps in
Monetary Policy
Dossier

You are familiar with the complex of papers which
Middleton put forward to the Chancellor, and which will
no doubt figure prominently in your afternoon meeting
with the Prime Minister. The attached papers also
include some which you have not yet seen, including
CAEG's piece commissioned this morning.

2 Housing finance

pps in
GIF

Your letter to the Chancellor on this subject was
sent on 7 August. The ideas therein, of course,
interlock with the strategy of aggressive tapping
of personal savings by Government which is covered
in CAEG's note.

3 The Weir Group

pps with
TIS

You asked to be reminded of this rescue operation.
Briefing by DAW is attached.

4 Green Paper on Monetary Control

pps in
Select Committee
Dossier.

You may wish to consider raising the progress of
the consultations.

ED
100?

- 5 Fixed-rate export credit

DAW's letter to Couzens suggested, in the last paragraph, that you may wish to discuss this subject with the Chancellor.

PAW says that the Chancellor is not aware of this letter yet. A paper, incorporating the points in our letter, will go to the FST at the end of the week. DAW suggests that the subject should be reserved for discussion with Couzens. *SP* 2/9

CAO?
100

- 6 Relocation

The Deputy Governor's exchange of letters with the Secretary of State for Wales is enclosed.

- 7 Proprietorial role

You will be aware that a Ministerial meeting is being arranged for 16 September, to which you have been invited.

DAW advises that this meeting would better take place given the Insurance Company Chairman Dinner on 17th Sept

1st 100

- 8 "PLO" and "By-laws" resolutions (IBRD)

1st

- 9 Possible UK contribution to an IMF subsidy account

7/13

- 10 Treasury paper on sterling as a reserve currency

MJB has prepared a note summarising the latest state of play, principally as briefing for Sir Kenneth Couzens' lunch visit tomorrow.

JB 2/9

PPS in Iran ~~Doss~~

- 11 Iran

1st 100

- 12 Poland

Governor's Office HO-P
2 September 1980
S P Collins (4121)

SP

inch 0 inch

1

2

3



10 DOWNING STREET

With the compliments of

M. A. PATTISON



10 DOWNING STREET

From the Private Secretary

3 September 1980

TBM
18/9

CR 4/10

Dear John

As you know, the Chancellor and the Governor of the Bank of England had a meeting with the Prime Minister today to discuss progress in the money supply. The Financial Secretary to the Treasury, Mr. Burns, Mr. Middleton, Miss Brown from the Treasury, and Mr. Goodhart from the Bank were also present.

The discussion centred on the issues raised by the banking figures due to be announced on Tuesday. The Prime Minister expressed her serious concern that the money supply would be seen to be out of control. The Government would need to consider urgently how to act in the face of this situation. In the Prime Minister's view, it would be necessary to draw up a plan next month covering four elements: the question of how to get back on target for a 7 to 11 per cent growth in money supply, or alternatively what revised target to adopt; whether to go back to allowing interest rates to follow the market; whether to use the reverse asset ratio for controlling purposes as well as a measure of prudence; and how to carry to a conclusion the Green Paper discussion on monetary base.

The Chancellor said that he would be ready to come forward with proposals on these matters by the middle of October.

The Prime Minister was uneasy about forecasting of PSBR and CGBR. She asked to see the best available profile of the future performance of PSBR. The Chancellor explained that the best immediately available profile would be provided by the CGBR three monthly forecast, and he would arrange for the latest update to be provided.

The Prime Minister asked about the handling of the banking figures announcement on 9 September. The Chancellor said that he had been giving very careful thought to this, and would let the

/Prime Minister

-2-

Prime Minister have a note by the time she returned to London on Monday 8 September. There were two other issues which he needed to raise with her in this context. One was policy on interest rates, which would now need to be considered in the context of the work commissioned for mid-October. The second was the question of expanding, in stages, the "Granny Bond" principle to the population as a whole as part of an effort to mop up liquidity in the personal sector. He had a scheme ready for announcement, possibly on Tuesday. The Prime Minister agreed that this was a necessary step.

The Prime Minister will be returning to London around 1 p.m. on Monday, and it would be helpful if you could ensure that the necessary material reaches us before she gets back. If, on reflection, you feel it would be useful to let the Prime Minister see any further material on these matters over the weekend, we should be able to arrange to get it to her at Balmoral provided that we have it in good time on Friday afternoon. Perhaps you could liaise with Clive Whitmore about this.

I am sending a copy of this letter to John Beverly at the Bank of England.

Yours ever

Mike Pattison

A.J. Wiggins, Esq.,
HM Treasury.