

Note for the record

CC Master
Econ Pol, P.E.D
Domestic Monetary
Policy.
Econ Pol

c.c. Mr. Wolfson
Mr. Hoskyns

Mr. John Sparrow called on the Prime Minister at 1015 hours today.

Mr. Sparrow said that nobody had expected the October banking figures to be anything like as bad as they had turned out to be. Nor was there any clear reason for the bad figures. One possible explanation was that interest rates were now debited quarterly; if this was not taken account of in the seasonal adjustment, it would tend to push up the figures for October. His own experience was that companies were not increasing their overdrafts.

Mr. Sparrow went on to say that the City were expecting MLR to be increased to 16% on Thursday. Gilts prices had fallen in response to this expectation. But brokers generally felt that today or Wednesday would be the last time to buy gilts cheaply. In other words, they expected the interest rates to come down once the MLR increase was announced.

Besides the MLR increase, many people in the City were expecting additional spending cuts and the use of the regulator; these, combined with the hope of renegotiation of the UK's EEC budget contribution, would help to bring down the PSBR.

The Prime Minister asked whether companies were not borrowing to finance big pay settlements. Mr. Sparrow replied that the current level of settlements was not as high as it might appear. It was the big settlements which got all the publicity. Small settlements did not get publicity because it was not in the interests of managements to publicise them. He cited the example of Mather and Platt which had settled for 12½%, and also the Talbot settlement. It would be a mistake for the Government to try and give such settlements publicity - even though the publicity given to the big settlements

/did have

did have an influence on the general tenor of the pay round.

After the meeting, Mr. Sparrow told me that a general question running through the City was whether the Government were going to embark on a 'U'turn. His own clear impression from what the Prime Minister had said to him, and what she had said at the Lord Mayor's Dinner, was that the Government had no such intention.

R.

13 November 1979