

SECRET

New lower mile
Parliament - market related issues
Out of contract - 57%
Royalties in cash
B.N.O.C.

PRIME MINISTER

MEETING WITH THE CHANCELLOR

I. Financial Markets

The money supply figures have given some assistance to the money and gilts markets, but the exchange rate still remains fragile. While the strength of the Dollar and uncertainty about oil are clearly factors, the markets are more and more coming to suspect that money supply growth is too fast. Rapid growth of bank lending (£1½ billion a month), high borrowing requirements and poor gilt sales are a recipe for continued high growth of the money supply. Is the Chancellor confident that, even if interest rates can be held, that they should be held?

II. BNOG

This is a chance to concert your tactics before the meeting immediately afterwards with Mr. Walker. The latter will no doubt play for time pending his meeting with Yamani, which is likely to be next week. Your aim should be to pin him down on what the Government would like to do so that he is clear what propositions he should discuss with Yamani. The options are set out more fully in the note for the BNOG meeting.

III. Employment Seminar

There is a meeting on Monday to discuss Mr. King's paper, and you have an opportunity, therefore, to discuss with the Chancellor what you both want to emerge. The key decision is whether a separate White Paper is likely to help the Government in the presentation of its case, or whether it would be better to subsume everything in the Budget

SECRET

presentation. The Chancellor is likely to argue that decisions involving expenditure, taxation or insurance contributions should be announced in the Budget speech. There could still be a role for a White Paper which brought together these decisions with other 'pure' employment policy decisions such as that on Wages Councils.

IV. The Infrastructure/Tax Cuts Debate

The Chancellor can report on the NEDC meeting which discussed the rather critical report by the NEDO Secretariat. He can also advise on the best way to present the Government's arguments.

V. The Budget

The Chancellor is meeting Treasury colleagues and senior officials at Chevening this weekend. It would be helpful to agree with him the timetable for discussions on Budget strategy and the taking of individual decisions. It would be useful to have a meeting reasonably soon after Chevening, e.g. the week of 25/26 January, to discuss the broad outline. This can be followed by two or three meetings in early February to clear the major decisions, with the bilaterals in March being used to establish the presentation. - *Attached is a note on the broad themes of the Budget to John Redwood.*

VI. Chancellor's U.S. Trip

The Chancellor may mention his trip to the U.S. on Wednesday to Friday of next week for the G5 meeting, though it is not yet clear whether this will still go ahead following the switch of jobs between Regan and Baker.

AT

9 January 1985