

PRIME MINISTER

BILATERAL WITH THE CHANCELLOR

There is not much to talk about which is concrete.
Possibilities include:

- (i) markets: sterling firmer today, though still shaky;
- (ii) the City: further scandals unavoidable;
- (iii) teachers' pay: need to stop backsliding
(Mr. Baker is concerned about the timing of disputes in relation to an election);
- (iv) worth noting the figures which support prospects for a more buoyant economy, e.g., exports, retail sales, bank lending.

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(DAVID NORGROVE)
17 November 1986