

PRIME MINISTERBILATERAL WITH THE CHANCELLOR

The Chancellor may raise with you the following topics:

- (i) Markets. The Treasury have provided the note enclosed, which is entirely factual. The point you will wish to make to the Chancellor is that you are concerned about the exchange rate between the dollar and sterling as well as the rate with the DM. You do not share his almost exclusive preoccupation with the rate against the DM. (The Chancellor may be inclined to say that we cannot be concerned with both rates because we cannot determine the rate between the dollar and the DM. But this is to ignore the fact that we can intervene against both the dollar and the DM without necessarily disturbing the relationship between them.) You could say that you understand his concerns about the problems of funding earlier intervention but when sterling is strong you would expect to see intervention covering our off-market transactions by a substantial margin.
- (ii) Public Expenditure. The position here is not all that different from the one reported to you before the summer, of a need to increase the planning total by at least £3 billion. (It may be as much as £4 billion if the effect of an extra £1 billion of privatisation proceeds is not taken into account.)
- (iii) Benefits in kind. The Chancellor may want to take you through the proposals he has in mind, which you saw over the weekend (papers below).
- (iv) Bank of England lunch. I suspect he will want to make sure that you agree with him against the Bank

of England's rather protectionist line on foreign
takeovers of British financial institutions.

Do you want to proceed now with the reappointment of the
Governor? Journalists are still interested in the position
and there seems little point in delaying. (The formal
procedures with the Palace etc. will have to be gone through.)

I am told that the Chancellor feels uneasy about the Budget
package which I described to you in a minute today. He wants
to do some more work on it and is likely to come to talk to
you about it after the Party Conference.

S. Morris
D. Clerk

P.P.

D. R. NORCROFT

7 September 1987