

PRIME MINISTERBILATERAL WITH THE CHANCELLOR: 29 JUNE

Your normal half hour bilateral will follow the discussion with the Chancellor and the Chief Secretary about the handling of the public expenditure Cabinet (see separate folder).

There are perhaps four items for the agenda:

- (i) Hanover: you may want to tell the Chancellor about the outcome, particularly on monetary co-operation;
- (ii) Markets: you will want to ask the Chancellor to report on his decision today just to raise interest rates by half per cent. The market has in fact been very steady since the announcement. I enclose the market reports for both today and yesterday;
- (iii) Japanese applications to the Stock Exchange: the Chancellor will explain that the Governor is increasingly uneasy about continuing to delay the applications by Daiwa and Nomura. The Bank feel that, if the Japanese were to take legal action about the delays, they would quickly win their case by a judicial review. So the Governor is looking for a formal direction from the Treasury to continue the delay. But the Treasury do not want to give any such direction, since that would merely transfer the legal/judicial review problem on to them. So the Chancellor may want to probe how strongly you feel about continuing to hold up the Japanese applications; and if you wish to maintain the present position to suggest you speak to the Governor yourself;

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(iv) NHS Review: the next meeting of the Review Group is on Thursday, and papers for it have been circulated this afternoon. These are in the folder in case you wanted a first flick through them this evening. The Chancellor may want to seek to persuade you at the bilateral to accept his (restrictive) line on tax relief. I doubt if he will want to talk much about the other Treasury paper on financial hospitals or the various DHSS papers (on which Richard Wilson provided a trailer in ^{the} your weekend box).

Plcb.

PAUL GRAY
28 June 1988