

PRIME MINISTER

MEETING WITH SIR ALAN WALTERS

Alan, Brian Griffiths, Barry Potter and I will be arriving at 1900 on Saturday evening. Alan will be staying overnight and leaving for Heathrow around 0900 on Sunday morning. The rest of us will be returning to London that night.

Brian has provided a useful agenda for the meeting - Flag A. His final item is a discussion of reserve asset ratios. These are discussed in the hefty Treasury paper which will be coming to you this weekend. It is unlikely that you will have had time to read it before the meeting. It may, therefore, be better to hold this over until your meeting with the Chancellor on Tuesday.

Brian has also put in a note on the ERM - Flag B. At X he argues that UK interest rates would be unlikely to fall on entry. I would distinguish between the pressures, ie what is likely to happen without Government efforts, and what ought to happen. The political and economic pressures could well be for lower interest rates; what the economy needs is a strengthening of the exchange rate. The Government might have to work quite hard to secure this in the face of widespread expectations of a windfall on interest rates.

AT

ANDREW TURNBULL  
18 MAY 1990

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cc Back-up

A.

SECRET

PRIME MINISTER

18 May 1990

MEETING WITH SIR ALAN WALTERS

The following subjects need to be covered at the meeting tomorrow.

Present stance of Economic Policy

1. Is the present stance of policy too loose?
2. MO is now rising at 7.3% or more and has increased since hitting a low of 4.5% in September 1989. Is this a cause for concern?
3. Broader monetary aggregates are growing at 17-18%. Is this a cause for concern?
4. In view of the growth of the monetary aggregates, are interest rates too low?
5. The two other ways of tightening the economy are:
  - (a) public expenditure - how tough should this years PES round be?
  - (b) exchange rates - should entry to ERM at a high rate be used in the fight against inflation?

Entry to the ERM

6. If we were to enter with a wide band, what are the risks to inflation or deflation from joining?
7. What problems do you see in being in the ERM during the run-up to an election? *And what problems about not being in?*
8. What is the inflationary potential of Germany?
9. How important are covert controls in the operation of the ERM at present?
10. What about timing for entry?
11. What impact will sterling have on the ERM?
12. Is it technically possible to realign sterling if we hit the top of the range? If not is this a case for delay?

Other Issues

13. What is the value of reserve asset ratios as a way of controlling the banking system?

*BGr.*

BRIAN GRIFFITHS

PRIME MINISTER  

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## MEETING WITH SIR ALAN WALTERS

You said you would welcome a chance to talk to Sir Alan Walters in the near future. I have established that he will be coming to Britain on 17 May, leaving for Warsaw on Sunday 20 May. You are in Finchley on Friday afternoon and are seeing Mr de Klerk on Saturday. One possibility would be a meeting on Friday 18 May for an hour at 0930-1030. Content for me to arrange this?

AT

ANDREW TURNBULL

9 May 1990

Prime Minister

I have spoken to Alan. He would like to come to dinner a Saturday evening after Mr de Klerk has left. As he has to be at Heathrow by 8:00 a.m. a Sunday morning, he would very much appreciate being able to stay overnights. I would like to come as well, though not stay. Would you like Brian to be invited also?

Yes no

AT  
11/5

I assume that one of our cars

can take Alan to Heathrow. I will pass  
whatever is the case  
me