

SECRET

PRIME MINISTER

BILATERAL WITH THE CHANCELLOR

The Chancellor is likely to raise:

(i) the position of the contingency reserve which is under severe pressure;

(ii) Current economic indicators. After a long run of favourable indicators, recent indicators have been disappointing eg PSBR, trade figures*, inflation, earnings, GDP (though other indicators such as CBI surveys, cyclical indicators and consumer expenditure still look bright). The prospects for the wide monetary aggregates for the period May-July are also poor, reflecting the pattern of the PSBR. You will want to discuss whether the cumulative impact of these indicators is cause for concern.

* a note explaining recent movements in the Hot Base

(iii) Fees for non-elected directors of the Bank of England have been fixed at £500 a year since 1880. The Governor wishes to raise these to £5,000 which he considers is reasonable for one morning's work a week. This requires a supplement to the Bank Charter which may need your agreement.

(iv) Civil service pay - see Chancellor's minute

AT

23 May 1983