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PRIME MINISTER

BILATERAL WITH THE CHANCELLOR

I am not aware of any major subjects the Chancellor plans to raise tomorrow.

You will presumably wish to have the usual resumé of the position in the markets. You might want to take the opportunity to stress to the Chancellor your views on intervention policy. The potential problem of upward pressure on the exchange rate seems to have gone away this week, but doubtless will return at some future point. We do not yet have the final balance of payments Q3 figures being published on Thursday but I am told that there will be a £<sup>3</sup>/<sub>4</sub> billion reduction in the current account deficit for the first three quarters, mainly on the invisible side. The cumulative balancing item for the three quarters is now put at £12 billion.

The bilateral immediately precedes the meeting on the Delors Committee. You might want to take the opportunity of a word with the Chancellor about this before the full meeting.

*Residence Green Paper*

*PRG.*

PAUL GRAY

13 December 1988

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