

PRIME MINISTER

BILATERAL WITH THE CHANCELLOR: 1 MARCH

You are seeing the Chancellor tomorrow afternoon, by which time we should have seen the initial reaction in the markets to the trade figures.

I have agreed the following agenda with the Chancellor's Office.

(i) Markets

Thankfully the markets have been much quieter today.

My impression is that the Chancellor's thinking is closely in line with your own. He too would like if at all possible to avoid a further interest rate increase, and I am told, not for disclosure, that he has authorised the Bank to make intervention of up to \$500 million tomorrow without further reference back to him.

You will want to emphasise to the Chancellor your view that, if necessary, there should be heavy intervention over the next few days - say up to \$1 billion a day. You may want to make clear that your attitude to intervention is asymmetric: it is imperative that in present conditions monetary policy is firmly anti-inflationary, and that while it is not appropriate to intervene to stop the pound rising, it is appropriate to do so to stop it falling.

(ii) Budget

The Chancellor will want to report back on the points he agreed to consider further when you spoke last week. I attach a separate brief, together with the earlier papers, in the enclosed Budget folder.

(iii) County Nat West: Blue Arrow

The Chancellor has sent you a very short minute about this (Flag A), indicating the Bank's conclusion - which he supports - that nothing further should be done at this stage. The Chancellor will want to expand on this at the bilateral. You may want to consider pressing him for a sight of the Bank's own letter. You will need to decide whether you agree with the Chancellor's conclusion.

(iv) Central Statistical Office

The Chancellor will want to press his case for the CSO being brought under the Treasury's wing, and is sending over a minute later tonight or tomorrow. Andrew and I suggest you should not seek to decide this issue tomorrow; the Chancellor can put his case, and then you can reflect on the opposing arguments you have heard from him and from Robin.

(v) Delors Committee Report

Charles is putting separately in the box the draft paper the Governor proposes to send in to Delors later this week. If time permits you may want to have a brief word with the Chancellor about this.

REC.

PAUL GRAY

28 February 1989