

PA

PRIME MINISTER

BILATERAL WITH THE CHANCELLOR: 7 NOVEMBER

You have your weekly bilateral with the Chancellor tomorrow afternoon before you leave for New York.

Following discussion with his office I suggest the following agenda.

1. Markets

We have had another quiet day today. Unless anything dramatic happens tomorrow there should be no operational issues to discuss. But it may be worth starting the meeting by quickly reviewing the position in the markets.

2. Autumn Statement and the Economic Forecast

You have already seen the internal Treasury forecast (Flag A). The Chancellor had already told you that he wanted to consider carefully what figures should be published in the Autumn Statement. He will be having a further meeting with his officials tomorrow morning to firm up his views.

I hope that, following that discussion, the Chancellor will hand over to you a table summarising the key forecast figures he plans to publish in the Autumn Statement on 15 November, together with the summary Public Expenditure numbers. You will then want to compare his proposals with the figures in table 1.1 on page 2 of the internal forecast (Flag A). My impression is that he will propose:

- slightly higher real growth figures than in the internal forecast;
- as a result, slightly higher current account deficits;

- a lower 1990 Q4 RPI figure;
- roughly the same PSDR figures;
- the Public Expenditure/GDP ratio in 1990-91 at 39 per cent, the same as in last year's Statement, with small falls thereafter.

You will obviously want to consider his proposals carefully. The main general issues are:

- What should be the Government's general story on the economic prospects for the next year or so? John Major may be tempted to take advantage of his early days to get out now as much of the bad news as he can, and avoid having progressively to reveal bad news as the months go by. On the other hand, neither he nor you will want to paint too gloomy a picture.
- How to present the Public Expenditure numbers? A problem here is that the market and the newspapers are not currently expecting as big cash additions to the plans as will be revealed next week (around £6 billion). This points to focussing the presentation on the unchanged ratio figure for 1990-91. But is it also worth considering in the run-up to next week's Statement beginning to prepare the markets for the size of the cash additions?

As background to this discussion, you may also want to look at the latest Treasury monthly monetary assessment (Flag B) which has come in today. I have highlighted key passages. The main message I draw from it is that the signs of a slow-down in domestic demand are becoming clearer; the one main indicator that does not fit into this picture is the continuing very high balance of trade deficit.

3. EMU

You may want to have a word with the Chancellor about the outcome of today's Foreign Affairs Council discussion of the UK paper.

4. City Matters

The Chancellor will be seeing the Governor of the Bank at lunchtime tomorrow, and will therefore be fully briefed on latest developments. You may want to ask about the position on Morgan Grenfell.

5. Ownership of Pension Fund Assets

When you saw the latest papers on Protecting Pensions last week you indicated that you wanted to raise separately with the Chancellor the Policy Unit point about a separate review of the ownership of pension fund assets. The papers are at Flag C. The best way of doing this might simply be to ask the Chancellor to make sure the point is looked at; I am not sure it would be right to go straight to a review by the Occupational Pensions Board.

BACG.

PAUL GRAY

6 November 1989

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