

PRIME MINISTERBILATERAL WITH THE CHANCELLOR: 21 FEBRUARY 1990

There is quite a full agenda for tomorrow's bilateral.

1. Markets and latest indicators

You will want to have a short review of latest developments and prospects. The pound has been very strong over the last couple of weeks. The next main indicator is the monthly balance of payments figures, on which I reported last night. The latest estimate is slightly worse still - see the note at Flag A.

2. Improvements in Economic Statistics

The Chancellor had a meeting with Sir Jack Hibbert this afternoon and wants to report to you on that. I am not sure quite what he will say but I gather one possibility is the suggestion of announcing in the Budget a plan for improvement in statistics. But I suggest you leave the Chancellor to raise this, rather than putting the suggestion to him.

3. Pre-Budget Cabinet

The usual pre-Budget discussion is scheduled for Cabinet this week. You will want to discuss the handling of this with the Chancellor, and to agree the form of words which Bernard will issue after Cabinet. A draft formulation is at Flag B.

4. Budget

The Chancellor wants to bring you up-to-date with developments in his thinking over the last couple of weeks. I attach at Flag C the earlier note which he let you have.

5. Short-termism

You will recall the Chancellor let you have a paper on this in advance of your dinner at the Bank of England last Thursday (Flag D). You may want to have a brief word about

this paper and the discussion at the Bank. I also now enclose a further note from the Policy Unit on this issue (Flag E).

6. German Monetary Union

If time permits you may want a word about the possible implications of German monetary union. You saw last week the first draft of a Treasury paper (Flag F). The Chancellor's paper for Cabinet on Thursday, which has now been circulated, includes a shorter annex (Flag G) which you may like to glance at.

And, more significantly, we have now had a first note from Alan Walters (Flag H) giving his analysis of likely developments. Alan includes some quantification of the possible effects but, like everyone else, stresses the enormous uncertainties. The Chancellor is not aware of Alan's note and you will want to consider whether or not to reveal to him that you have it.

PG.

PAUL GRAY

20 February 1990