

# MEETING RECORD

Subject CC MASTER

## NOTE FOR THE RECORD

### PRIME MINISTER'S BILATERAL WITH THE CHANCELLOR, 9 MAY

The following were the main points made in discussion

- (i) An agreement had been struck on IMF quotas and the site of the EBRD.
- (ii) The RPI figure at a 9.4 per cent increase for April was better than expected: it was, however, a considerable jump on the previous month's 8.1 per cent increase. A major briefing effort was necessary to present the figures as well as possible.
- (iii) The Chancellor would go on television at lunchtime on Friday, 11 May to explain the factors generating the high figures and refer to the much lower underlying rate. The Chief Secretary would speak at Perth in the afternoon. The speech should be cleared with No.10.
- (iv) There were some indications from the latest figures that there was some abatement in the underlying rate of inflation. This could be the first evidence of a squeeze on profit margins, but too much should not be read into one month's figures.
- (v) If the RPI were measured on a comparable basis to European consumer price indices, the annual increase would be some 2-2.75 per cent lower. The Treasury would provide a precise figure which could be incorporated into the Prime Minister's speech this weekend.
- (vi) The present RPIAC was likely to finish its duties by the end of June or early July. It would not be appropriate to announce that this Committee was

to be replaced now. Rather, following a number of press articles suggesting that the RPI was distorted, it would be useful to let pressure build up for changes to be made.

- (vii) The MO figures still showed a stubbornly high rate of growth. One possible explanation was that they were tracking nominal retail sales figures: some City economists expected the rate of increase in MO to fall quite sharply soon.
- (viii) The French and German Finance Ministers held monthly meetings. The importance of these might have been underestimated. It was possible that co-ordinated intervention in exchange markets may be being agreed.
- (ix) The Treasury was preparing a paper on all technical aspects of entry into the ERM, including possible entry dates. It was important to ensure that no information about this leaked under any circumstances. Treasury papers on joining the ERM and on accompanying reforms to monetary policy should be ready by the end of the month.
- (x) When the UK went into the ERM it would do so with a wide band. It would be important to resist political pressure for a reduction in interest rates immediately thereafter. Any pressure was best accommodated by allowing the exchange rate to rise.

BHP

BARRY H. POTTER

10 May 1990

A:\economic\bilateral (pmm)