

PRIME MINISTER

BILATERAL WITH THE CHANCELLOR

You have a 45 minute slot with the Chancellor tomorrow at 1700 for the weekly bilateral.

My understanding is the Chancellor wants to discuss two items:

- handling the public expenditure announcement and Autumn Statement;
- next steps on EMU.

Public Expenditure and Autumn Statement

Preparations on public spending and the Autumn Statement are well advanced. The Chancellor will send you a draft copy of the Cabinet paper reporting the outcome of the public expenditure round over the weekend.

The outcome of the round is broadly as already indicated, i.e. a planning total figure for 1991-92 of around £200 billion. The good news is that, by careful arithmetic, it should be possible to achieve a General Government Expenditure (GGE) total (ie planning total and "other" public spending) that will hold the ratio of GGE to GDP constant between this year and next. Over the following two years the ratio will be forecast to fall further.

The Autumn Statement will be released on 8 November. The Chancellor's main concern is with departmental press releases. There was some indication of the difficulties at yesterday's meeting, when Mr. Baker bid for an upbeat presentation on the amounts added by Government to public spending next year.

There is always a delicate balance to be struck. It will be important to reassure financial markets that the public expenditure stance remains prudent - not least when the dangers

of reverting to a borrowing requirement are evident. On the other hand, that still leaves scope for Government to draw attention to money made available for particular priorities.

Much of the inherent tensions between the two positions can be resolved by careful drafting of departmental press releases. The Chancellor will probably ask for such departmental press notes on individual programmes to be cleared with the Treasury. That does seem sensible.

EMU - Next Steps

The Chancellor wants to discuss only two points. First he wants a first hand account of the European Council discussions.

Second he has been discussing with Nigel Wicks the next steps leading to the IGC and beyond. The Chancellor wants to discuss with you the proposals he provisionally has in mind.

Chancellor's absence

At the last bilateral meeting the Chancellor mentioned that he would need to go into hospital to have the problem with his wisdom teeth resolved. A date has now been fixed. Accordingly the Chancellor will be out of action from Saturday 17 November through to Monday 26 November.

BHP

B.H. POTTER

30 October 1990

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