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J S Fforde Esq
Bank of England

24 June 1980

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25/6
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Dear John,

Thank you for your letter of 24 June,
which I have brought to the attention
of those who saw the record of the
Chancellor's meeting with the Governor
on 18 June.

Yours sincerely

John Wiggins

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Mr. Yorke

24 June 1980

A J Wiggins Esq
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Dear John

YOUR NOTE OF THE MEETING BETWEEN THE CHANCELLOR OF THE EXCHEQUER
AND THE GOVERNOR HELD AT 5.00 PM ON JUNE 18TH

The Governor has discussed these Minutes with me and has asked me to write to you suggesting a number of amendments of substance, as follows:-

- (i) In paragraph 5, line 8, the sentence should read 'For banking May £900 million gross gilt sales had been achieved'; and the following sentence should begin 'In banking June, the CGBR has again been very high'.
- (ii) On the remainder of paragraph 5, we feel that the present text does not fully record the Governor's expression of concern about the way the borrowing requirement seems to be developing. I therefore offer the following alternative to the second half of the paragraph (beginning at the top of page 3):-

Concentrated

'It would be desirable to make clear in briefing on the May money figures that the CGBR problem had continued beyond the end of calendar May. It seemed likely that the CGBR would be £1½ billion above the NIF forecast for the June quarter and that the forecast for the September quarter would also be substantially exceeded. There were no obvious explanations why borrowing should be very heavily ~~centred~~ *concentrated* in the earlier part of the financial year and it was accordingly not easy to see how the forecast for the year as a whole was going to be validated. The problem seemed to result from high spending spread across the whole range of Government activity rather than from a revenue shortfall, while local authority borrowing also seemed to be running ahead. The Governor found these developments extremely worrying.'

- (iii) On paragraph 10, we feel that the point made would be easier to understand if it were a little more spelt out, as follows:-

Actually | 'The point was made that the Government had not been 'over-funding' in May and June given the high CGBR. If funding were now reduced, there was little prospect of long-term interest rates falling in consequence sufficiently to induce companies to issue fixed rate debentures and repay bank advances. In these circumstances if no attempt were made to achieve further gilt sales (in the hope of encouraging interest rates downwards) the result would simply be an excessive rise in money supply and the prospects for interest rates could then ~~only~~ worsen. The pace of funding could be reduced later, if the trends in the CGBR and bank lending warranted this.'

- (iv) On paragraph 11 the Governor would prefer the sentence beginning 'However' in line 6 to begin 'Although he admitted that an early move' and would prefer the sentence to run on after 'levels' in line 9 with 'the Governor urged and it was agreed that the Bank and Treasury'.
- (v) Finally, a small amendment is needed to paragraph 3 in the last line of page 1. The phrase 'and some members of OPEC' should be added to the sentence that now ends with 'Germany and the UK'.

Yours sincerely

John G. G. G.