

# Re Gowers

Further to my note of John Kerr's fall  
from yesterday evening, my understanding  
is that you had had it in mind to cover the  
following items:

- i. ✓ Interest Rates [to which are linked  
H.P. Controls & Nat. Savings]
- ii. Vulnerability of the UK's external  
position (H.P.'s letter to Cargers, which,  
so far as we know, the Chancellor  
has not seen)
- iii. Stock Exchange Reference [? further legal  
reference]
- iv. Issue Queues etc [ie = "Bulldogs"?] &  
further considerations of Capital Market  
Measures
- v. Hungary
- vi. Argentine Restrictions (PM's view)
- vii. ? Ministerial looks on forecasts of banks.
- viii. <sup>Canada</sup> Canada (~~money~~ <sup>money</sup> ~~Barren~~ <sup>Barren</sup>) ~~view~~

Also (?) the private paper that you mentioned  
earlier to the Chancellor  
Given the longer mtg with the Chancellor now proposed, the  
mtg prior on Policy Implications of the Financial Forecasts will have to be  
revised.

7/7



THE GOVERNOR

Copies to The Deputy Governor  
Mr Fforde  
Mr Loehnis  
Mr Coleby  
Mr Goodhart

*W 7/7*

YOUR MEETING WITH THE CHANCELLOR 8 JULY

Middleton has advised me that the following subjects might come up in your discussion with the Chancellor -

(i) Short-term Interest Rates

The Chancellor has been getting advice from a number of quarters. Adam Ridley has been arguing for a sharp reduction; Bruce Gardyne for none at all. Walters has evidently sent a short minute to No 10 (following inter alia his conversation with JSFf) suggesting that rates are likely to come down but that "some people are trying to hold this up". Middleton's sense is that the Chancellor inclines to caution with a further modest move.

Points which you may wish to take into account include the following -

*Excl*

(a) Our recent operations have indicated acquiescence in a further modest decline, and barring an unexpected setback, eg, from the US or the exchange market, we will shortly be committed - in terms of market expectations - to a ½% fall in base rates some time during the next fortnight or so.

(b) While there are domestic monetary grounds for this, important uncertainties remain. We will have a clearer view of the short-term domestic monetary prospect in a week's time, when we have been able to analyse the latest monetary data and forecasts. We may also in a fortnight or so have a better understanding of the likely course of the US monetary policy in the light of Volcker's appearance before Congress and the first signs of the July money bulge.

*20 Jul*

*see Volcker note  
- see note of my conversation  
with Volcker 7/7.  
- money market's  
knot.*



(c) An important element in the domestic monetary prospect is the funding position and in particular the prospect for National Savings which we will be discussing with the Economic Secretary today and on which I will report to you tomorrow.

While therefore we have not wanted to stand in the way of the present market movement, we continue to feel that a cautious stance in which we are not seen to be leading rates down is the best way to sustainably lower rates. It may be that after a proper analysis of the latest data, we will want to suggest a modest reduction in the "band" to accommodate this stance.

(ii) Exchange market intervention

Probably prompted by Alan Walters, and he in turn probably by Press comment at the weekend, the PM has asked the Chancellor if he is happy with our exchange market tactics. As far as Middleton is aware everyone in the Treasury, including the Chancellor, is entirely happy, but the Chancellor may wish to discuss before saying so to the PM. I imagine that the question is raised partly in the light of the scale of intervention through the Falklands crisis, but more fundamentally by a concern that a market perception that we have an exchange rate objective of around 90 on the ERI is itself inhibiting downward pressure on interest rates.

(iii) The Bulldog Market

Lavelle is putting up a submission to the Chancellor today covering our draft notice. We understand that this will support the policy of restraint, but omit a reference to such restraint in the context of conventional issues in the London market by overseas borrowers. We are promised a copy of the submission this evening, and expect that the Governor and Chancellor will be able to agree.

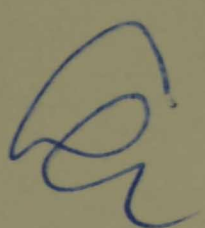
(iv) The International Banking Situation

Although he has been advised not to raise this question, the Chancellor may nevertheless do so in the context of a minute which I understand Couzens has put forward entitled The Prospects of Financial Disaster in the Euromarkets.



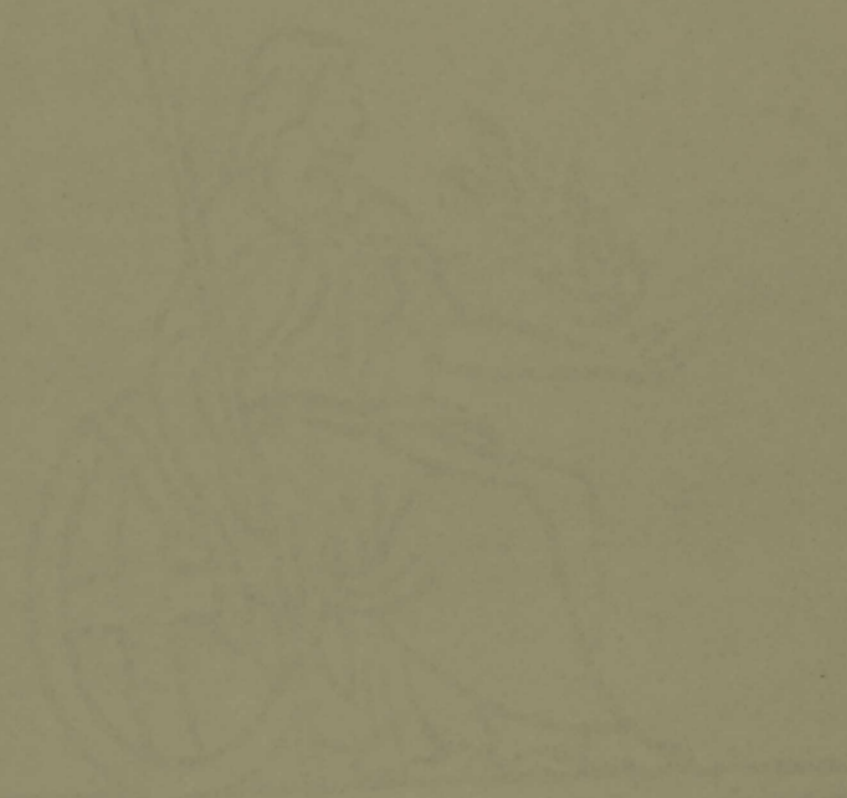
Finally, it is possible that the Chancellor will mention  
Lord Cockfield's letter on hire purchase controls. We are hoping  
to put forward a minute on this this evening.

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7 July 1982



BANK OF



INDIA

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