

NOTE FOR RECORD

Copies to The Governor  
Mr Loehnis  
Mr George  
Mr Walker  
Mr Fforde  
Mr Dow o/r

*ATB only - vide DAW*

At the first part of the meeting with the Chancellor yesterday (Chancellor, Governor, Wass and I present) we discussed interest rate policy and funding policy.

On interest rates we attempted without much success to suggest that it was more important to try to think about how far down, on various assumptions, we could ultimately allow interest rates to fall, than to agonise about whether another  $\frac{1}{2}\%$  off base rates came this week or next. The Chancellor is obviously hoping for significant further falls before too long and said he would be unworried if the exchange rate fell a bit. When the Governor raised the possibility of a bit more creaming off while the exchange rate was so strong, the Chancellor assented without much qualification, though relating his view to recouping the Falklands losses, which I understand has nearly been done. However the message I got was that we could cream off a little more than we had been doing.

On funding, the Governor raised the general question of whether, on the basis of an underlying full funding policy, we should risk erring on the side of under or overfunding. He made the case for risking erring on the overfunding side in the next few months, citing the familiar difficulties of getting going again after a pause, the need for a varied menu of stocks, the problem of telling at any given time how much was going to the non-banks and the £3½ billion maturities in the first quarter of 1983. After some inconclusive discussion, the Chancellor summed up his

*SAI  
SUB 1093  
10/8*

*Wass 27/8*

position in the following Delphic way (I think I have it verbatim). He said that he had previously been seized of the importance of being ahead of the game but had now somewhat switched his emphasis towards wanting to "meet funding requirements pretty closely, which means having a bit in reserve, but being prepared for some underfunding if the programme appears to be going well".

It was agreed that there was no immediate question for discussion and it was hoped that, when Middleton was back, he and EAJG could sort matters out. In the interim, the Governor and Chancellor might have to resolve any question of a new stock.

Cwm

27 August 1982