

THE GOVERNOR

Copies to Mr Blunden
Mr Loehnis
Mr George
Mr Walker
Mr Fforde
Mr Dow
Mr Flemming

Wass told me a little this morning about how things were moving on fiscal policy. From what I have heard from JSFF, Wass's account is broadly - though perhaps not completely - similar to that of Middleton.

Wass said that indications now are that PSBR 1982/83 may be even lower than £8½ bn. [The second quarter PSBR is due out tomorrow and will indicate less than £4 bn for the first half.] The Chancellor has decided to try to "fill up" this year's PSBR to bring it back near the projected £9½ bn. So far some £700 mn have been identified for this purpose. Wass placed less emphasis than Middleton apparently does on the relationship between this and any consequent reduction in next year's PSBR (that is, through bringing transactions forward). He suggested that of the £700 mn about £500 will be "borrowed" from 1983/84.

Some of the immediate plans are once for all and some have some economic content (he mentioned "painting hospitals") but much of it will be financial and amount to little more than changes of figures.

Moreover every attempt will be taken (or this is the Chancellor's idea) to play down these measures. To the extent that they are announced at all - and some may not be - they will come out piecemeal and as rather routine announcements by the Minister concerned. The aim will be to get to a position next Spring

where the Treasury will be able to say that the PSBR was, after all, just what they planned.

The corollary of all this is that the Chancellor is very determined not to have any form of Autumn Statement, let alone a mini-Budget. It therefore follows, Wass suggested, that any recommendations from the Bank about fiscal stance should realistically address themselves to what might be done in the Budget. Here, Wass said that the Chancellor was toying with the idea of a PSBR for 1983/84 about a £1 bn more than in the NIF, ie about £9½ bn.

Cwm

20 October 1982

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