S4 1+1.
(ppsidc)

Gov / CIE mtg
on
took place.

GPS

Monday's meeting

I suggest
Gov
EAJG
[JSF]
CAEG

(I won't be here & since there is apparently (check!) going to be no overseas representation from HMT, I imagine there is no need for ADL to go)

CWG

Little will be there; so shall ADL, therefore - PM 18/2

The Governor

We have now learned that Monday's meeting has expanded; the following have also been invited (in addition to the Econ. Secretary):

Wass
Burns
Middleton
Cassell
Mrs. Lomax
Adam Ridley
Walters.

You can bring "as many as you wish, within reason".

[illegible] 18/2

MEETING ON MTFS
IN PREPARATION FOR MEETING
WITH C/E 21.2.83

Date: Monday 21 February

Time: After Books

Place: Governor's Room

Those attending:

Copy to: G, ADL, EAJG, JCRD, JSFF, ALC, CAEG, GPS

Not Attending

DG (in Denmark);
JSFI (GL)

Relevant Papers:

To be advised

CAEG
18/2.

23/2

RECORD OF A DISCUSSION ON THE MEDIUM TERM FINANCIAL STRATEGY AT 2.15PM ON 21 FEBRUARY AT THE TREASURY

Present:	Chancellor	Governor	Professor Walters
	Economic Secretary	Mr George	Mr Cassell
	Sir D Wass	Mr Loehnis	Mr Kerr
	Mr Burns	Mr Goodhart	Mrs Lomax
	Mr Middleton		

The meeting considered the draft of the 1983 MTFS which had been circulated with Mr Burns' minute of 18 February.

2. The Chancellor suggested that the key issue was the appropriate target monetary ranges for 1983-84. It had been agreed that the target period should be 14 months, starting in February: the issue was whether the ranges should be 7-11, or 6-10. The latter might perhaps have a better impact on expectations about inflation.

3. The Governor thought it important to maintain consistency in successive MTFSs: the fact that RPI inflation had fallen faster than expected did not constitute a case for further ratcheting down the deceleration of monetary growth. And to go for a range of 6-10 would on the one hand cause concern by appearing to damage the prospect of recovery: it might, on the other hand, also raise issues of credibility. A range of 7-11 looked achievable, but to go for a lower range would probably necessitate adopting a separate, and higher, range for M1. Mr George added that the market reaction to 6-10 would be unfortunate, for it would imply that the task of reverting to a declining interest rate path would be harder.

4. Sir Douglas Wass and Mr Burns agreed with the Governor. To ratchet down to 6-10 would be seen as reducing the headroom for real growth. Professor Walters however thought that to stay with 7-11 would suggest acceptance that the process of working inflation out of the system would be long and slow. To go for 6-10 would

/signal greater

signal greater resolve, and would have considerable symbolic value. If it was thought necessary to hold to 7-11 for 1983-84, it would be as well to move to 5-9 and 3-7 for the two subsequent years.

5. In further discussion, it was suggested that the markets expected the Government to hold to the path shown in the 1982 MTFS, and would find it difficult to reconcile a lower path with lower interest rates and higher output; that lowering the target ranges now could entail a significant tightening of policy in due course; that to the extent that inflation was likely to rise during the year the 7-11 range would impose a tighter discipline; and that a lower range would be likely - at least in the short term - to lead to higher interest rates.

6. It was agreed that the balance of advantage lay in retaining the path shown in table 3 of the draft MTFS, ie ranges of 7-11 in 1983-84, and 6-10 and 5-9 in the two subsequent years.

7. The meeting then considered a number of drafting points. It was agreed:-

a. that the discussion of M1 in para 7 should be condensed;

b. that the last sentence of para 11 should be omitted, but that the first sentence of para 12 should be subsumed in para 11, which should also set out the agreed target period;

c. that the reference, in para 13, to the exchange rate assumption deserved further study. It was argued that the reference to "no major change" could be construed as implying expectation/acceptance of a further 10 per cent fall; though it

was noted that

was noted that its replacement by a new phrase would be seen as significant, and might be no less likely to provoke questions;

d. that the PSBR figures in para 17 were provisional, and that decisions would be taken in due course in the light of a further forecast; and

e. that a full discussion of the relationship between the GDP deflator and the RPI might be required in para 18, or a foot-note to para 18, depending on the extent of the discussion in part 3 of the FSBR.

It was noted that the Bank would submit detailed drafting suggestions.

8. At the conclusion of the meeting, the Chancellor thanked the Governor for his letter of 18 February on short term interest rates. He accepted that in the light of current uncertainties, and particularly developments in the oil market, it would not be appropriate at present for the Bank to seek to bring down the general level of rates. But it was of course agreed that the Bank would resist any renewed threat of higher rates.

JOK

J O KERR 22 February 1983

Distribution:

Those present

Chief Secretary	Sir A Rawlinson	Mr Kemp
Financial Secretary	Mr Littler	Mr Monck
Minister of State (R)	Mr Byatt	Mr Odling-Smee
Minister of State (C)	Mr Cassell	Mr Ridley
	Mr Evans	Mr Shields