

S E C R E T

From: J O KERR  
29 January 1982



cc Sir D Wass  
Sir K Couzens  
Mr Ryrie  
Mr Burns  
Mr Carey  
Mr Kemp  
Mr Monck  
Mr Turnbull  
Mr Pirie

MR MIDDLETON

*Rec 1/25/82  
S.45  
R*

As you know, the Chancellor had a brief talk with the Governor in the House last night. They touched on the following subjects:-

- xref to:*
- i. Poland The Chancellor thanked the Governor for his letter of 27 January, which had been discussed in OD earlier in the evening. OD agreed that the rumours that the US administration were considering forcing Poland into default, with the hope of encouraging a domino effect of further defaults among East European countries, must be taken seriously. They also agreed that the idea was gravely mistaken. Early and high level messages to the administration were envisaged.
  - ii. Monetary policy and the Budget The Chancellor thanked the Governor for his letter of 26 January, which was timely and useful. Cabinet had gone well, with colleagues' accepting the Chancellor's definition of the parameters within which the Budget must be framed.  
*copy in Budget file (safe)*  
*- Budget file*
  - iii. Bank strike: contingency planning The Chancellor mentioned that contacts between the CLCB and the Treasury over contingency planning for industrial trouble had been broken off, perhaps because of an - erroneous - fear that the Treasury might use them to exert pressure on the banks for a lower pay settlement than they might wish to concede. The Governor said that he had heard about the rupture, and that he would use his good offices to try to reverse it. The Chancellor thought that the contacts - which had of course been tripartite with the Bank fully involved - were valuable and should continue.

/Money markets





iv. Money markets The Governor said that, following the fall in base rates, the week had been one of successful consolidation, despite considerable - US-induced-turbulence in the markets. Sterling had remained strong: if this strength continued, and subject to market reactions to further US news and the money supply figures, it might be possible to start on 1 February to encourage a further downward movement in rates. Heavy-footed action would however produce the wrong reaction. The Chancellor agreed: further downward movement would be welcome. The Governor thought that he might also be able on 1 February to propose a reduction in the interest rate band. It might now be re-centred on 14 per cent.

*J. O. Kerr*

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