

SA1/1

SECRET

4. 5.82

NOTE FOR RECORD

Copies to The Governor
The Deputy Governor
Mr Blunden
Mr Loehnis
Mr George
Mr Walker

Shaw, West.

The Governor, accompanied by the Deputy Governor, will call on the Chancellor at No 11 on Friday 7 May at 10.00 am - in advance of their dinner with Secretary Regan of the US Treasury that evening.

Pl. see separate papers.
6/5

M P Stafford.
Governor's Office HO-P
4 May 1982

Miss M P Stafford (4421)

54-11150

7582

The Governor.

WR 4/5
They attended

Meeting with the Ck

pre Regan dinner 7/5

pps filed in Pers A.
U.S.A - Ambassador.

Subject to your ^{confirmed} agreement,

I have arranged that you and the Deputy Governor will call on the Chancellor at No 11, at 10.00 am on Friday 7/5.

Your first appointment is the Base briefing mtg at 11.00 am. This can easily be re-scheduled.

See also records
mtg 7582.

MS.

The Governor

✓ The Deputy Governor

Mr. Lochrie

Mr. George

Mr. Bulford

Mr. Holland

CPS

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From: J O KERR
7 May 1982

PS/ Governor

OR

14/5

see also MPS m/s 7.3.82

RECORD OF A CONVERSATION BETWEEN THE CHANCELLOR AND THE GOVERNOR
AT No.11 AT 10.00 a.m. ON 7 MAY

Present: Chancellor
Mr Littler

Governor
Mr McMahon

It was agreed that the markets were holding up remarkably well during the Falklands crisis. Indeed recent developments (eg HMS Sheffield) have evoked much less sharp reactions than had the early stages of the crisis.

2. In discussion of the handling of the weekend contacts with Secretary Regan, it was agreed that principal aims must be:-

a. To probe the prospects on the fiscal deficit, and the content of the apparent agreement with Senate Republicans;

b. Hence to explore Regan's thinking on the prospects for US interest rates, and how the corporate sector would be affected if they stayed high;

c. To warn Regan that he would next week face calls from his European colleagues for lower deficits, and hence interest rates, and that the UK would not be able to remain silent.

3. The Chancellor then raised the issue of the proposed Rambouillet monetary initiative. It was curious that the running seemed to be being made by Sprinkel and the French, and galling to find Sprinkel preaching the need for a "concerted effort to reduce the burgeoning credit demands of government which result from persistent budget deficits". But the Chancellor thought the

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initiative worth encouraging, eg at the G5 dinner in Helsinki.

4. On the US attitude to intervention, Mr McMahon drew attention to Sprinkel's reference at the last "sherpas" meeting to the fact that "the US did not rule out intervention altogether, and had on four occasions recently been ready to move into the market". The Chancellor thought that he might probe this privately with Regan. It was potentially relevant to the current Falklands situation; and provided a means of sounding, indirectly, Regan's attitude to a possible contingent case for intervention in the event of a major sterling fall. He preferred, and the Governor agreed, not to make any direct sounding. The Governor thought that the US administration might be more sensitive to market problems springing from events in South America than to those of Eastern European origin.

JOK

J O KERR

Distribution: Sir D Wass (o/r)
Sir K Couzens (o/r)
Mr Littler
Mr Lavelle
Mr Monck
PS/Governor