GPS

10 DOWNING STREET

From the Private Secretary

2 February 1983

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Dear Jill,

Prime Minister's lunch with the Committee of London Clearing Bankers

The Prime Minister had lunch today with the clearing bank Chairmen. I attach a list of those present.

The Prime Minister said that domestic interest rates were too high. They were higher in real terms than they had been since 1973, notwithstanding the correct financial policies which the Government was following. She had been mortified on her return from the Falkland Islands at the rise in base rates from 10% to 11%. Nothing had been achieved by the latest rise: the exchange rate was precisely where it would have been if this rise had not occurred. It was regrettable that the clearing banks had been moved by the sentiment in the markets to raise their base rates. If they had held on for a day or so longer the pressure would have abated. The Chairmen said that the pressure was a market pressure which went much wider than the clearing banks. Mr. Bevan, replying to the Prime Minister's comment that Barclays had led the last two rises in base rates, said that they had led the last four, two up and two down; they were now depending, given the fall in current account balances, on money from the markets to a much greater degree than previously. Thus, they were market takers and not market makers. Mr. Leigh-Pemberton said that Nat West had been losing £1 billion a week through keeping their base rate out of line with money market rates. The Prime Minister said that she believed that one of the factors here was the lines of credit, or overdrafts, which British banks made available to customers. Banks in other countries did not follow this course, and it was regrettable that British banks entered into open-ended commitments of this sort. There followed a discussion about the utility to UK industry of the overdraft system, and the desirability of returning to a position where debenture finance was more readily available.

All the Chairmen said that they shared the Prime Minister's view that interest rates were too high. The higher the rates, the more they suffered from bad debts. The Prime Minister said that she had been told by several overseas bankers that there

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would be resistance from British banks to a lower interest rate regime, because British banking costs had risen rapidly and because the endowment factor operated only when interest rates were above a certain level. The Chairmen demurred. They did not believe that their costs had risen disproportionately, and it was not true to say that they needed interest rates above 8% or 9% at the present time to cover their costs. The Prime Minister said that she had seen evidence from the banks themselves that their costs in running current accounts as a proportion of average current account balances had risen from 6.9% in 1975 to 8.2% now. This figure was still rising. Furthermore bank charges, similarly measured in an inflation-adjusted way, had risen sharply over the same period. Sir Jeremy Morse suggested that these figures did not take account of the reduction in total current account balances in recent years. The Prime Minister said that she was very concerned about the pay situation in the clearing banks. Pay in insurance companies, merchant banks and in the clearing banks was very high in relation to the Civil Service. and she was alarmed to hear that the Chairmen were thinking in terms of a settlement around 5%. She hoped that they would remember that the nurses had settled at 4½% in the current year, and that that had been a special case. There was every reason for a settlement well below the going rate of inflation.

On Argentina, the Chairmen thanked the Prime Minister for the position which the Government had taken. They recognised the political difficulties, but argued,on the lines of the Times Leader on Saturday, that this course was very much in the national interest. Mr. Bevan said that they had welcomed the Inland Revenue's recent letter to the banks about specific provision for bad debts. When it was suggested that this letter simply confirmed the Revenue's existing practice, which had been obscured by misleading press reports, Sir Jeremy Morse commented that the Revenue's claim to this effect was correct in letter but not in spirit. There followed a discussion about Barclays' Saturday opening initiative. The other Chairmen argued that the alternative approach, a 24 hour mechanised cash distribution/plastic card system, gave equal service to their customers. The Prime Minister commended Barclays' initiative, and said that she expected it would lead to new accounts.

I am copying this letter to Tim Allen in the Governor of the Bank of England's Office.

Yours sincerely,

Michael Scholar

Miss Jill Rutter,
H.M. Treasury.

THE COMMITTEE OF LONDON CLEARING BANKERS

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SECRETARY-GENERAL
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CHAIRMEN'S LUNCHEON : 2ND FEBRUARY, 1983

1.00 for 1.15 P.M.

The Rt.Hon.Margaret Thatcher, M.P., Prime Minister

Mr.M.C.Scholar, Private Secretary to the Prime Minister

Sir Robert Fairbairn, J.P., Chairman, Clydesdale Bank PLC

Mr.R.Leigh-Pemberton, Chairman, National Westminster Bank PLC (Chairman, Committee of London Clearing Bankers)

Mr.T.H.Bevan, Chairman, Barclays Bank PLC (Deputy Chairman, Committee of London Clearing Bankers)

Sir Jeremy Morse, K.C.M.G., Chairman, Lloyds Bank Plc

Sir Donald Barron, Chairman, Midland Bank plc

Sir George Kenyon, J.P., D.L., LL.D., Chairman, Williams & Glyn's Bank plc

Mr.J.G.Quinton, Director and Senior General Manager, Barclays Bank PLC (Chairman, Chief Executive Officers' Committee)

Mr.K.S.Lucas, Secretary-General, Committee of London Clearing Bankers

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