

add to
PPS 541/1

Mr Deputy secret

meeting
1.6.83

John Kerr has just
phoned me to say that
the Chancellor wd. like
a mtg tomorrow (@ 9.45 ^{am.})
to discuss the possibility of
a cut in Base Rates

(this put at greater length
& more carefully, I can

give you the exact words^{*}.)

I have told the Bureau —
who asks if you wd. p.
phone him before you
go out to lunch. Perhaps
we cd. have a word first
so that I can give you a fully
account of it.

1/2 31/5

THE GOVERNOR

Copies to The Deputy Governor)

Mr Loehnis) ONLY
Mr George)

62 21/5

*Meeting took place.
1.6.83.*

As I mentioned, John Kerr rang at noon today to propose a meeting at 9.45 am tomorrow (Wednesday) at Number 11. He apologised for the inconvenient timing, which was dictated by the Chancellor's electioneering engagements.

In speaking of the reason for the meeting, Kerr first referred to the Chancellor's letter to the Governor of 26 May. He said that the strength of sterling had persisted and the Chancellor felt that the foreign exchange situation was such that it was highly desirable that base rates should go down. He was concerned that otherwise exporters would soon "kick up."

Kerr went on to say that the Chancellor found the first guess money figures (showing sterling M3 as flat) encouraging. Although he realised they might change, any revision would have to be very large to worsen the situation much.

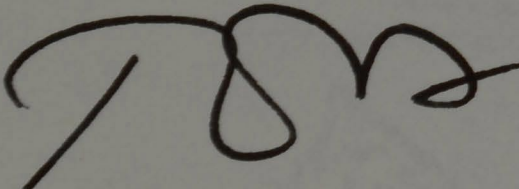
Therefore the Chancellor wanted to discuss with the Governor whether the markets were likely to want to take base rates down. The Chancellor's own feeling was that one reason which had kept the domestic markets firm was their feeling that the authorities did not want a cut in base rates. The Chancellor wanted to test this feeling of his with the Governor.

Kerr emphasised that the Chancellor would not wish to be thought to be "engineering" a reduction. But he thought that it would be "natural" for base rates to come down a little, and thought that the markets would also believe this to be the case.

Kerr emphasised that all this was the Chancellor's own thinking. He had not been briefed by Treasury officials since coming back from Williamsburg.

When I asked Kerr about Treasury attendance at the meeting, he said that he would be guided by the Governor's choice of his own team. When I subsequently told him that the Governor had agreed to the time of the meeting and would be accompanied by the Deputy, ADL and EAJG, he said that he would ask Middleton, Littler, Monck and Lavelle to join the Chancellor. He said that he would not invite the Economic Secretary or Burns, and made no mention of Walters.

The Governor is to hold a preparatory meeting with the Deputy, ADL and EAJG at 9.00 am, either at the Bank or at St Anselm's Place.



Governor's Office HO-P
31 May 1983

T E Allen (4121)