

SECRET

21. 6.84

NOTE FOR RECORD

Copies to The Deputy Governor o/r
Mr George
Mr Coleby

BASE RATES

This note records two conversations between the Governor and the Chancellor this morning.

The Chancellor rang at 11.40. He was surprised to hear that Lloyds were thinking of raising their base rate by $\frac{1}{4}\%$, particularly since Morse had told him a day or so earlier that 'we need a base rate increase like a hole in the head'. The Chancellor felt that the timing was particularly inappropriate because it would simply add to the uncertainty caused by yesterday's US news.

The Governor pointed out that, influenced by competitive pressures, Lloyds would simply be moving their base rate into line with two of the other clearers: they would not be leading a move to a generally higher level of rates. Nevertheless, if the Chancellor felt very strongly on this issue, he would consider speaking to Morse.

The Governor spoke again to the Chancellor at 1.10. He said that, on reflection, while it would no doubt be possible for him to put pressure on Lloyds to defer their proposed increase, he felt it inevitable that Lloyds would want to move by Monday at the latest. Furthermore, he saw some risks in postponement, because by Monday it might no longer be possible to 'hide behind' the excuse of external influences.

The Chancellor recognised that the arguments were finely balanced, but he was concerned, among other things, that an early increase might prompt weekend press comment about higher interest rates. He accepted that, if circumstances did not change (which the Chancellor was not prepared to rule out), Lloyds would have to move on Monday; but he felt that an increase could then be more easily justified in terms of coming into line with other banks. The Governor said that we would speak to Lloyds and ask them to hold off for the time being.

Governor's Office HO-P
21 June 1984

John Bartlett (4121)

