

File 82  
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SUBJECT CCMASSTGA

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*From the Private Secretary*

22 May 1990

**CHANCELLOR'S BILATERAL MEETING WITH THE PRIME MINISTER**

At today's bilateral the Prime Minister and the Chancellor discussed the Treasury paper on new techniques on monetary and growth control.

I should be grateful if you would ensure that this letter is seen only by those with a strict need-to-know.

It was agreed that the Chancellor should take forward the package of measures on the marketing of credit identified in the fourth paragraph of his minute to the Prime Minister of 17 May. Specifically he should discuss with the Secretary of State for Trade and Industry the detailed implementation of the various measures identified.

The Prime Minister and the Chancellor also discussed the proposals to reinforce the Bank of England's controls in money markets. The Chancellor drew attention to the possible advantages of introducing a special deposit requirement: the attraction was the improved ability to manage the money markets, although the benefits were relatively marginal. He did not advocate an immediate introduction of this mechanism: but he thought that it might form a useful part of a wider policy package.

The Prime Minister wanted to be satisfied that the introduction of such a requirement would not, in itself, increase the pressures on interest rates; and that, in the light of earlier policy statements, such a step could not be attacked as representing a reversal of previous policy.

A further opportunity to discuss the possible role of special deposits in a wider policy package will arise when the forthcoming Treasury paper on the exchange rate mechanism was discussed.

(BARRY H. POTTER)

John Gieve, Esq.,  
HM Treasury.