

Did he call.

APS.

SECRET

4.12.80

NOTE FOR RECORD

*ms  
/12*

Copies to The Governor  
The Deputy Governor  
Mr Fforde  
Mr Dow  
Mr Blunden  
Mr Page  
Mr Loehnis  
Mr Coleby  
Mr George  
Mr Goodhart  
Mr Walker

It has been arranged that the Governor should call on the Chancellor at 9.<sup>30</sup>~~00~~ am on Thursday 11 December at No 11. It is not yet certain whether the Governor will be accompanied.

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Governor's Office HO-P  
4 December 1980  
T E Allen (4121)

54/11 Possible subjects for visit to Chancellor

1. Personal lending (G.M.G., ~~10/12~~ 10/12, two notes) - ED → Morse
2. The state of industry (DAW, 9/12) - ED.
3. ✓ FHA report on arrears and bad debts (J.S.F., 4/12)
4. Succession to Lord Cornwall as Second Government Broker (E.A.I.G., 8/12) - on TTS problem
5. UDT/L.S. (D.G., 8/12; other papers in "Tomorrow Programme" folder) <sup>TS.</sup>
6. Taxation of the banks\* (DAW reported at Banks on the meeting between Lawson & Morse) (the export credit levy)
7. Relocation of the Registrar's Department (sundry papers attached) <sup>CRD</sup>
8. Massey Ferguson\* (DAW, 10/12) - ED
9. Loan guarantee scheme\* (DAW, 9/12) <sup>ED</sup> Prefer to be taxed a
10. Novato money figures (G.E.A.H., 8/12)
11. Poland (Cabinet Office paper, 8/12) <sup>10/1</sup>
12. PM's <sup>question</sup> ~~report~~ on lotter swaps (A.L.C., 10/12) <sup>G.S.F.</sup>

\* See also DAW's note on "Issues between Government and the Clearers" (2/12), attached immediately behind

• See also DAW's note on "Lunch with Nigel Lawson" (27/11), behind.

N.B. For your information, the Chancellor is to make a speech in Paris on 27th January on various international financial topics - see Hamachi's letter to ADL of 9/12, attached.



Received 2.1.81 12:18:30

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G.P.S. Mr. Gill  
We spoke to  
do you know and you agreed  
what, if anything, to reply  
direct to JSE's group



Letters to the Deputy Governor  
Mr. Spence  
Mr. Holt 9/1  
Mr. Blunden  
Mr. Page  
Mr. Watkins  
Mr. C. G. G. / Mr. V. L.  
Mr. George  
Mr. Walker  
Mr. Coombes  
Mr. Thomas  
Mr. Harrison

NOTE OF A MEETING

happened about X on p. 2  
MONETARY AFFAIRS

The Governor of the Bank of England called on the Chancellor at No. 11 Downing on Thursday, 11 December 1980 at 9.30 a.m. Mr. Ryrie was also present.

Bank lending to the personal sector

2. The Governor said it was difficult to draw firm conclusions from recent figures; the detailed breakdown of all banks' lending during the latest period had not yet been analysed. The Bank were inclined to think that some recent Treasury comment tended to overstate the significance of the recent increase in bank lending to the personal sector. It was true that total bank lending to the personal sector increased by 28 per cent over the year to the end of the third quarter, while lending to companies (adjusted for the bill leak) had increased by only 18 per cent over the same period. But lending to unincorporated business (which had grown by 36 per cent over this period) accounted for a substantial proportion of total personal sector lending, and if this was excluded lending for consumption had increased by 21 per cent. (Consumption lending accounted for about 12 per cent of the total lending outstanding to the private sector.) Because lending to business was now decelerating markedly, consumption lending was tending to represent a higher proportion of new advances. Nevertheless such lending was itself slowing down; consumption lending by the clearing banks (which generally did not diverge markedly from consumption lending by all banks) had increased by 7 per cent in the quarter to August 1980, but only 4 per cent in the quarter to November 1980. However, it was decelerating less rapidly than lending to business, and the clearing banks were surprised that it had held up as much as these figures indicated. The Governor noted that the increase in consumer

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credit granted by institutions other than banks had declined steadily through the year from a year-on-year increase of about 28 per cent at the beginning of 1980 to the most recent figure of about 17 per cent. He said that the Bank would be producing a further note when fuller figures were available; it might be appropriate for this to be shown to the Prime Minister.

#### Bank lending for house purchase

3. Mr. Ryrie suggested that the banks might not keep to their undertaking to keep the rate of increase in their lending for housing finance in line with the rate of increase in total advances if other elements in lending declined very rapidly. Sir Jeremy Morse had warned of this difficulty in his letter spelling out "the nuances" attached to the undertaking; but he had concluded that the banks clearly understood what the authorities wanted to happen, and they "undertook to try to achieve it". There could be advantage if the Governor were to take steps to remind them of this point. It would be helpful if the Government could tell the Building Societies Association that we expected the banks to make only small and temporary use of the qualification Sir Jeremy Morse had attached to the clearing banks' agreement with the Chancellor. The Governor said there did not at present appear to be any clear trend in clearing banks' mortgage lending; increases during the last four quarters had been £50 million, £53 million, £128 million, £80 million - and much of this was lending to the banks' own employees. Nevertheless he would speak to the CLCB about the matter, in view of the concern the BSA (who knew of the qualification) had expressed about it.

#### Dispersal of the Registrar's Department

4. The Governor said that, because of the difficulty of moving existing staff, the Bank were likely to come down against moving the Registrar's Department to an Assisted Area. It was essential not only to find an alternative location with excellent communications, but also to be able to offer some prospect of jobs for spouses and children. 350 of the present 1,000 staff





would be needed if a satisfactory level of efficiency were to be maintained; 700 people altogether would be employed outside London if the move were to take place. The Secretary of State for Wales had written to the Governor about the dispersal, and the Governor wondered how detailed a reply it would be appropriate for him to send explaining the Bank's approach. The Chancellor suggested that the Bank should look again at the possibility of moving the Department to South Wales; the Government would face considerable pressure and criticism if an organisation which was generally seen as an arm of central government refused to move to an Assisted Area. The Governor said that the Bank had as yet taken no definite decision to move the Department, and that they had so far approached none of their staff about their willingness to move. He would discuss the matter again with the Chancellor when the Bank's view had become clearly.

#### Export Credit Cost Sharing with the Banks

5. The Chancellor noted that, following his discussion with Sir Jeremy Morse, the clearing banks had made clear to the Financial Secretary that they were unwilling to make any significant offer to accept a share of the costs of subsidising export credit, and that they would prefer to face a special tax. The Governor said that the decision on this was for the Government; but if the decision were to be in favour of the tax, it would come at a time when bank profits were already falling sharply because of lower interest rates and a very much higher level of bad debts arising out of the unprecedented recession. In current cost terms the banks' profits did not appear unduly high. Mr. Ryrle said the Treasury were looking again at the various possibilities for taxing the banks, and would be discussing them with the Bank.

#### Finance Houses

6. The Governor reported that at the Bank's quarterly meeting with the finance houses, the latter had reported an unprecedented increase in arrears and bad debts; the problems were by no means confined to small firms. The fall in the secondhand value of





the assets on which loans were secured made the problems worse. The independent houses which concentrated on personal lending were doing better than the clearing bank subsidiaries which lent mainly to businesses.

#### Massey Ferguson

7. The Governor reported that, following discussion among central banks, there now seemed to be a fair prospect of a package emerging which would enable the Group to survive, and with it the important UK operation. The US banks appeared to have made some concessions which removed certain key obstacles.

#### Deputy Government Broker

8. The Governor reported that Mr. Roger Daniell had been proposed as Deputy Government Broker in succession to Lord Cromwell. He was the son of a former Government Broker, and was already with Mullens. Following further consultation with the Treasury, Mr. Goodwin of the NILO would write formally to the Chancellor proposing his appointment.

*TASB / Lucas Goodwin  
who writes Treasury.*

#### Monetary Outlook

9. The Governor expressed his concern about the deterioration in the monetary outlook; it now appeared that the PSBR would be nearer £12½ billion during the current year, rather than the £11½ billion suggested by the Industry Act forecast. The prospects of a significant improvement after the New Year had become much weaker. The Bank were struck by the very limited discretion the Government had to vary large areas of public expenditure - the US were apparently experiencing much the same problem. Despite signs of good performance in November, the Bank still expected exports to be on the downward trend; and they were worried that inadequate profits would deprive UK industry of the opportunity to make the investments needed to remain internationally competitive. Although there was nothing in substance to commend it, he wondered whether there might not be presentational advantage in looking again at the idea of



a North Sea Investment Fund. The Bank would definitely favour the limited scheme designed to get the company debenture market going again. The Chancellor said his instincts and concerns were not very different from the Governors; but there were some signs that UK firms were making unprecedented efforts to improve their performance in overseas markets, and his recent meeting with some of the Sector Working Party Chairmen had suggested that substantial parts of industry were coming to terms with the high exchange rate.

JW

(A.J. WIGGINS)  
12 December 1980

Distribution

Financial Secretary  
Sir Douglas Wass  
Mr. Ryrle  
Mr. Middleton  
Mr. Monck  
Mr. Ridley