

CHANCELLOR

Following Affairs

cc Chief Secretary
 Financial Secretary
 Sir D Wass
 Mr Ryrie
 Mr Burns
 ✓ Mr Middleton
 Mr Britton
 Mr Unwin
 Mr Pirie
 Mr Turnbull

MEETING WITH THE GOVERNOR ON MONDAY 23 FEBRUARY

Among the subjects you will want to cover with the Governor are the special tax on bank deposits, the monetary target, the Bank's income, and the timing of the changes in monetary control.

Special Tax on Bank Deposits

2. You will want to tell the Governor that you have decided on the rate.
3. In due course you will want to ensure that the Bank's public position on the tax is at least neutral, but this will probably not be the right occasion to raise this.

The Monetary Target

4. You will want to tell the Governor that you intend to confirm that the target range for M3 will be 6-10%. Although you have not formally confirmed the base month, it seems sensible to make it banking February so that the target period will cover the 14 months to April 1982, the same length as the last target period.
5. You have decided that any qualification should be in words rather than widening the range or changing the mid-point. These words have yet to be discussed but you envisage some reference to other monetary aggregates, progress with inflation and its effect on the level of real interest rates. Your preference would be to avoid an explicit mention of the exchange rate. But Sir Douglas Wass will be in touch with the Governor about the precise form of words.

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The Cash Ratio and the Bank's Income

6. You will want to ask the Governor where this stands following the discussion with the Court on 19 February.
7. I understand that the Governor will raise this subject with Sir Jeremy Morse either today or on Monday. He is well aware of the importance of setting a minimum for bankers' balances, as the record of his meeting with you on 17 February confirms. But he does not know what he can negotiate with the clearers or whether he will need to seek to extend an effective requirement for bankers' balances to any or all the non-clearers. You will want to stress your wish to say in the Budget that there will in future be a minimum cash requirement at least for the clearers.

Other Changes in Monetary Control

8. On timing, I gather that talks with the Accepting Houses about widening the list of banks whose bills are "eligible" for transactions with the Bank should begin next week. But discussions with the discount houses and clearers (at a level below the Governor) are unlikely before the week beginning 2 March. In these discussions the Bank will be seeking to ensure through arrangements which effectively underpin the discount houses, though on a smaller scale than the present arrangements, that the bill market is large enough for their open-market arrangements to work effectively. The discussions will also cover the new prudential arrangements, to replace the Reserve Asset Ratio.
9. You will want to tell the Governor that you would like to announce the formal abolition of the RAR in the Budget Speech even if the new arrangements are not fully in place. This would not involve prudential risks because the supervisors have asked the banks to consult them before making any major changes in the pattern of their asset holdings.

pp. S. Wilkes
R. N. MONCK

20 February 1981