
From:
Sent: 09 May 2010 15:55
To:
Cc:

Subject: Call with Mr Osborne

Classification:

Chx spoke to Mr Osborne this afternoon ahead of the ECOFIN meeting.

Chx began by explaining he had asked you to update Mr Osborne this morning as it was not possible to call from the train. He also asked that the call be confidential as it involved the details of other country positions.

Chx talked Mr Osborne through the latest developments as follows:

- there was a real concern that without action over the weekend, markets would have a real go at Portugal and Spain;
- there had been two recent G7 calls, demonstrating this is an international concern.
[Information redacted]
- it remained a real problem that there was no consensus or clarity across Europe and the Euro area;
- the European Commission were meeting now (at 13:15 UK time) and had not yet tabled a formal proposal;
- the ECB were also meeting. Without action from them on liquidity and support, other efforts would likely prove insufficient;
- Portugal and Spain were expected to announce further fiscal measures, but there was an ongoing debate about timing;
- [Information redacted]

Continuing, Chx said he expected the European Commission to put forward two proposals:

(a) 60bn of available support to euro area countries, building on the existing facility available to non-euro member states, but not currently requiring IMF involvement. Chx said his view is that it must require IMF involvement; and

(b) a larger European Stabilisation Fund of unspecified size. Chx anticipated that this proposal would apply to the euro area only, though recognising this was not yet definite. Chx said he had spoken yesterday to EU Commissioner Rehn and made clear that the UK could not be part of the Fund as it was relevant to euro area countries only. He thought there could be no question of a residual liability on non-euro area member states.

Continuing, Chx said he understood from earlier conversation [names redacted] that Mr Osborne had either reservations about or was flatly against the first proposal. Chx said he was concerned panic would spread in markets without action over the weekend.

Responding, Mr Osborne said he was very grateful to be informed. He informed Chx that a number of EU Finance Ministers had contacted him. While he had had a longer conversation with the Swedish Finance Minister due to their prior connection, he had made clear that Chx is still the Chx and therefore he expressed no view.

Mr Osborne also said that he had spoken to the Governor and was aware of how grave he judged the situation to be.

Continuing, Mr Osborne said that while he was not part of the negotiations and did not know the details, he reminded Chx that he was operating in purdah period. He then asked Chx to be careful not to commit the UK to proposals that have a lasting effect on UK public finances.

Responding, Chx noted that there was an established Parliamentary committee scrutiny process so any decisions would be subject to parliamentary approval.

Mr Osborne then noted that today's proceedings were subject to QMV and wondered whether there were grounds for the UK to abstain due to purdah.

Chx noted this and said he had been given advice from the Cabinet Secretary to the effect that the government remained in place until such time as it did not. He reiterated that he would not support an ESF proposal if it were to apply more widely than the euro area and said he will let Mr Osborne know the outcome.
