



Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

Prime Minister (2)

They wrote this letter
before they received

one from me

25 July 1983

telling them they

must consult you, not

inform you in future.

Michael Scholar Esq
10 Downing Street
LONDON
SW1

MS

Dear Michael,

MS 25/7

NATIONAL SAVINGS: PRESS COMMENT

I wrote to you on 21 July about the minor National Savings changes which were announced on 22 July.

You will have seen the article by Clifford German in the Daily Telegraph on 23 July. He argues that the changes in National Savings rates point to a general increase in interest rates.

This is a very odd interpretation. We deliberately delayed raising National Savings rates until we had seen a consolidation of rates in both the gilt-edged market and in the money markets. The case for, and timing of, such a move was fully discussed at a meeting between the Chancellor and the Governor on 13 July. Alan Walters will recall that the view taken by the Bank was that following the 7 July announcements of action to keep this year's PSBR closer to the Budget plans, and the adjustment of building society and longer-term rates, a modest rise in National Savings rates would be seen as part of a general consolidation. The dominant influences on UK interest rates over coming weeks were thought to be the outlook for US rates, and the expected volume of Government borrowing in the gilt-edged market; and the Bank argued that an upward adjustment of National Savings rates, to get the flow closer to that envisaged in the Budget, would on balance be helpful to the gilt-edged market - since it would relieve it of the fear that it would have to absorb larger quantities of stock to make up for a shortfall in National Savings.

That assessment seemed to us an accurate one; and German's statement that "upward moves in interest rates in one sector of the economy make it harder to sell gilts" seems very dubious in this context.

As the Chancellor sees it, the rise in National Savings rates should not, as German seems to suggest, be an independent force pushing interest rates generally up; indeed the Bank's assessment was that it should if anything have the opposite effect. And we do not think City opinion will be much impressed with German's article.

Yours ever,
J O Kerr

J O KERR
Principal Private Secretary

25 JUL 1983

