

Prime Minister ⁽²⁾

MS 26/9



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

23 September 1983

Michael Scholar Esq
10 Downing Street
LONDON SW1

A handwritten signature in dark ink, appearing to be 'MS'.

Dear Michael,

NATIONAL SAVINGS - DEPOSIT BOND

The Chancellor has asked me to tell you of the proposal to launch a new National Savings instrument called the Deposit Bond.

National Savings Deposit Bonds blend various features of the National Savings Bank Investment Account (Invac) and the Income Bond, and the aim is to fill a genuine but modest gap in the National Savings product range in this area.

The Bonds are aimed at those savers who prefer interest paid gross and are prepared to accept a higher degree of illiquidity in return for a higher yield. They are likely to appeal to groups like pensioners and others not paying tax at all or at the standard rate; children who do not pay tax; charities not liable to tax; and those who prefer to earn high gross interest and pay tax later. The rate of return would be much the same as, but not higher than, that for the Income Bond.

The best estimate that can be made is that the net inflow from the new security might be of the order of £100 million to £300 million in a full year. This would be a welcome, if modest, contribution to Government funding in a period when we are expecting heavy gilts redemption. It should not disturb the building societies which are, as you know, currently getting plentiful inflows.

On timing, the aim is that the Department for National Savings should announce the Deposit Bonds through a press notice on 29 September and that the Bonds be on sale from 17

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October. The importance of this timing is that the new Bond's availability may help savers making decisions around that time on what to do with index-linked securities. These reach a sensitive point in November and December when this year's supplement, introduced to stem last year's very large outflows, will be paid.

Yours sincerely,

Margaret O'Mara

MISS M O'MARA
Private Secretary

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