File ECL

10 DOWNING STREET

From the Private Secretary 21 June 1984

NATIONAL SAVINGS

The Prime Minister saw your letter to me of 19 June and was content with the adjustments which are proposed in the terms of some of the National Savings instruments.

Andrew Turnbull

Adrian Ellis, Esq.,
H.M. Treasury.

CONFIDENTIAL

EC NO

520

Prime Minister

Treasury are proposing no major change on the main NS instruments, but a few modifications. Content?

AT 19/6

Treasury Chambers, Parliament Street, SWIP 3AG

MW

Andrew Turnbull Esq
Prime Minister's Office
10 Downing Street
LONDON
SW1

19 June 1984

Dear Andrew,

NATIONAL SAVINGS

National Savings inflows in April and May were well below the level achieved earlier in the year, and if the current rate were to continue, we could end up £$\frac{1}{2}$ billion or so short on the £3 billion target for the year.

Officials have considered whether, in the circumstances, National Savings rates should be increased in order to improve the inflow. Their conclusion, which the Economic Secretary endorses, is that it would be unwise to do so just now. Any significant move now would provide quite the wrong signals to the markets and it would almost certainly provoke the building societies into raising their rates. It seems quite likely that the societies will have to increase their rates before the end of summer - and probably before if base rates were to rise further. If and when the societies move, that will be the same for raising National Savings interest rates.

There are, however, some minor measures which the Economic Secretary believes would be worthwhile introducing to improve the attractiveness of some of the National Savings products, but which fall well short of an interest rate package. These measures are:

i) Yearly Plan: a new savings scheme already announced involving the purchase of a National Savings Certificate by regular savings over a year, would be launched on 2 July.

This replaces SAYE

ii) Index-Linked: the present 2.4 per cent supplement on index-linked National Savings becomes available in November and as happened last year it is proposed to make a statement of the Government's intention beyond then well in advance. Withdrawals from the index-linked certificates continue at a rather high level and this year's supplement offers a poor real rate return compared with other personal savings instruments. Against that background, a higher supplement is needed and it is intended to make it 3 per cent for the 12 months from November 1984. In addition, in future there will be a 4 per cent bonus 5 years after maturity, just as there is a 4 per cent bonus at maturity. In order to give a longer term assurance, it will also be announced that it is the Government's intention to give supplements on index-linked savings for at least a further 3 years (though the future rates of supplement will not be specified).

iii) Income Bond: it has been particularly hard hit by the last reduction of interest rates, and net sales have reduced by half since March. The Bond will be made more attractive by easing the conditions of withdrawal which are definitely out of line with competitors.

The intention is that these measures will be announced on Thursday 21 June.

Yours sincerely,

Adrian Ellis

A M ELLIS
Private Secretary