

CONFIDENTIAL



Prime Minister ①

Neither John Redwood nor I believe the Treasury will achieve even the modest inflation they seek. Agree with Treasury to reconsider possibly 8 1/2 per cent.

Treasury Chambers, Parliament Street, SW1P 3AG

AT
24/9

Yes

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

24 September 1984

Dear Andrew,

NATIONAL SAVINGS

Since 11 September, when the 28th National Savings Certificate was taken off sale, no fixed interest NSC has been available to the public. Subject to the Prime Minister's views, it is the intention to announce a replacement as soon as possible.

The 28th Certificate was, as you know, extremely successful. In the 5 weeks it was on sale it grossed over £1 billion. In doing so it made up for a rather sluggish National Savings performance in the earlier months of this financial year and put us back on course to achieve the £3 billion target. We had always intended that the rate on the 28th should be an attractive one, but part of its success was undoubtedly due to the fall in banks' base rates soon after it was announced and the general anticipation in mid-August that interest rate generally, including those of building societies, would decline. In fact rates have firmed from mid-August levels; indeed building societies' premium rates have increased to extremely aggressive levels. Given this, we cannot afford to take National Savings rates down too far.

The Economic Secretary has therefore decided that we should go a little slowly in funding from National Savings over the next 3 months because the monetary prospects, so far

as we can judge, do not require aggressive funding; we do not want National Savings to undermine, or even appear to undermine, the BT issue; and the building societies are in a nervous state after their August experience and are fearful of the BT issue.

Nevertheless out of the range of National Savings products only the fixed interest certificate has done well and a new issue must serve to contain any deficit that may arise over the next couple of months. Too low an intake over the next few months will pose the risk of National Savings falling a long way behind again and leaving a lot to catch up early in 1985 in very difficult circumstances.

Against this difficult background it has been decided to set the interest rate over the five year life of the 29th NSC at 8 per cent. This should not give the building societies genuine cause for complaint; and should not jeopardise the BT sale. At present interest rate levels some modest National Savings funding should result and, of course, it is right that the public should have an NSC available.

The Economic Secretary would therefore be grateful for the Prime Minister's approval to announce as soon as possible that the 29th NSC will be launched on 15 October with a coupon of 8 per cent. No other changes to National Savings products are being made.

*Yours awes,
Alan Ellis*

A M ELLIS
Private Secretary