

SECRET

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PRIME MINISTER

26 March 1985

FUNDING MEETING

I attended the meeting today.

National Savings. Likely to end 1984-85 around the £3 billion figure. In order to preserve some competitiveness with Building Societies, rates will be increased by 0.5% to: 13.25% for Income and Deposit Bonds; 12.75% for Invac; and 9.5% for the Extension Rate. The 30th Issue will be left at 12.6% although it is not fully competitive. These conclusions seem reasonable, balancing the need to keep up sales against reluctance to drive rates higher.

Gilt-Edged. A partly-paid convertible or a package of tranchettes are under consideration to keep up the funding momentum, and a low coupon short will be issued.

£M<sub>3</sub> is expected to grow at 1.2% in banking April taking the annualised growth to 10.1%, assuming gross gilt sales of £1.25 billion. All agreed it would be desirable to sell more if possible.

The market expects another 0.5% off base rates, and this is reflected in long gilt prices. Both the Bank and the Treasury now think the dollar has peaked. This would permit interest rates to fall.

JOHN REDWOOD

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