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10 DOWNING STREET

*From the Private Secretary*

29 March, 1985.

This is to confirm that the Prime Minister has seen your letter of 28 March about National Savings, and has agreed to the new rates proposed.

(Timothy Flesher)

Adrian Ellis, Esq.,  
HM Treasury.

*AE*





Treasury Chambers, Parliament Street, SW1P 3AG

A Turnbull Esq  
10 Downing Street  
LONDON SW1

28 March 1985

Prime Minister:

Dear Andrew

Yes Mr. G. 1/2% in National savings rates as proposed?

Agree to an increase  
in National savings  
rates as proposed?

28/3

#### NATIONAL SAVINGS

As you know, the building societies are increasing their deposit rates by  $\frac{3}{4}$  per cent net from 1 April. The banks, of course, reduced their rates by  $\frac{1}{2}$  per cent last week, and there has been a further  $\frac{1}{2}$  per cent reduction today. Despite these reductions, it seems most unlikely that the building societies will change their rates again before June. The Societies are National Savings' main competitors, and we have therefore concluded that there should be some increase in National Savings rates. This is necessary to enable National Savings to start the new financial year on a reasonable course towards the  $\pounds 3$  billion target, and to stem outflows from matured Savings Certificates.

A fully matching increase on all National Savings instruments could bring large inflows, particularly if we introduce a new certificate. It would also look rather aggressive at a time when base rates have fallen. We therefore judge that the increase in National savings rates should be confined to a  $\frac{1}{2}$  per cent increase on the variable rate instruments (on which interest is paid gross) and that no new certificate should be introduced at present.

The current and proposed new rates are:

	<u>Current</u>	<u>Proposed</u>
Income Bond	12.75%	13.25%
Deposit Bond	12.75%	13.25%
Invac	12.25%	12.75%
General Extension Rate (net)	9.00%	9.50%



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We should be grateful for the Prime Minister's agreement to the proposed rates, if possible so that an announcement can be made tomorrow in order to effect the change in the extension rate from 1 April.

Keep us,  
A M Ellis

A M ELLIS  
Private Secretary

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28 MAR 1985

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COMPANION

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