



10 DOWNING STREET

From the Private Secretary

11 June 1985

NATIONAL SAVINGS: INDEX-LINKED ISSUES

The Prime Minister has seen and noted the proposal to introduce a new Third Issue Index-Linked Certificate.

(Andrew Turnbull)

Adrian Ellis, Esq.,
HM Treasury.



Prime Minister (2) AT

To note

AT

10/6

Treasury Chambers, Parliament Street, SW1P 3AG

Andrew Turnbull Esq
10 Downing Street
LONDON SW1A

10 June 1985

Dear Andrew,

NATIONAL SAVINGS: INDEX-LINKED ISSUES

The current series of index-linked Certificates, Retirement Issue and Second Index-Linked Issue (RI and 2IL), have become increasingly complex over the years with the accretion of quinquennial bonuses and annual supplements. This makes them complicated to administer and difficult for customers to understand. Now is a convenient time to tidy up this situation. The Economic Secretary has decided, with the Chancellor's agreement, that 2IL shall be withdrawn and replaced on 1 July with a new Third Issue Index-Linked Certificate (3IL).

The 3IL will be much like a conventional fixed interest Certificate with a 5-year maturity except that the return will be made up of indexing plus a guaranteed real return of 3½ per cent. This return, which will be raked to provided an incentive for investors to hold it to maturity, is equivalent to the yield on a 5-year gilt.

The market for indexed instruments is fairly small, so 3IL is not expected to attract a large volume of savings, and should not worry the building societies who do not themselves offer indexed investments. Since this is simply a tidying up operation it should not give any wrong signal about inflation expectations.

The intention is if possible to announce the launch of 3IL, together with the next annual 3 per cent supplement on 2IL, on Tuesday 11 June.

Yours truly,
Adrian Ellis

ADRIAN ELLIS
PRIVATE SECRETARY