

CONFIDENTIAL



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D Norgrove Esq  
10 Downing Street  
London SW1

Prime Minister 2  
To write.

6 September 1985

Dear David,

### NATIONAL SAVINGS INTEREST RATES

We spoke earlier today about the proposal to reduce National Savings rates, following the cut in building society rates announced last month. The Chancellor was anxious that the changes in National Savings rates should be announced on Monday next week, before Tuesday's money supply figures. The Prime Minister agreed to this so long as the Chancellor was satisfied that the reduction would not put the £3 billion target for National Savings over the year at risk, and that the announcement would not be taken badly by the markets in the light of today's exchange rate movements.

The Chancellor has considered these points and concluded that the balance of advantage lies in an announcement on Monday. Arrangements for this have now been put in hand. The cut in rates will be seen as a reaction to the building societies' earlier move, and should not be taken to have any wider market significance. And because the reductions are slightly less than those made by the building societies, they will help to restore some of the competitiveness that National Savings lost earlier in the year, and keep them well on track towards achieving the £3 billion target for 1985-86.

The Council for the Building Societies Association recommended a 1½ per cent cut from 1 September in building society net deposit rates. The changes in National Savings rates will be a 1 per cent reduction on net instruments and a 1½ per cent reduction on gross instruments. Details of the current and proposed new rates are as follows:-

	<u>Current</u>	<u>Proposed</u>
Income and Deposit Bonds	13.25	12.00
Invac	12.75	11.50
Fixed Interest Certificates	8.85	7.85
Yearly Plan	9.28	8.19
General Extension Rate	9.51	8.52

These new rates will be announced on Monday at 5.30pm.

Yours sincerely,  
Phil Wynn Owen.

P WYNN OWEN  
Assistant Private Secretary

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