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File M
C.B.G.

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

12 July 1988

NATIONAL SAVINGS

Thank you for your letter of 11 July.
The Prime Minister is content with the
proposed announcement of the 34th savings
certificate issue today.

PAUL GRAY

Guy Westhead, Esq.,
Economic Secretary's Office,
H M Treasury

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Treasury Chambers, Parliament Street, SW1P 3AG in market rates.

Paul Gray Esq
 Private Secretary to the Prime Minister
 10 Downing Street
 LONDON
 SW1

11 July 1988

Dear Paul,

NATIONAL SAVINGS

This is to let you know that the Department for National Savings will be announcing at noon tomorrow the issue of a new fixed interest savings certificate, the 34th Issue, which will go on sale on 22 July.

X | The new certificate will offer 7.5 per cent a year over five years, compared with the 7 per cent currently on offer. Although we shall not make the point explicitly, we hope the announcement of a new issue will give the building societies an additional stimulus to raise their mortgage rates on 1 August and so help to restore the traditional relationship between mortgage rates and bank base rates.

As you know our current strategy is to secure more good quality funding and so to encourage holders of matured certificates to reinvest in the current issues of index-linked and fixed interest certificates. The new issue fits in well with this too. During August and September a number of investors will be considering a move out of the first and second issue index-linked savings certificates having earned their annual supplement on 1 August. There are also heavy maturities on 26th Issue.

Like the current issue, the investment limit on the 34th will be £1,000 for new purchases with an additional entitlement of £5,000 for holders of matured certificates who wish to reinvest the new issue.

Price Mink

X is the main reason why
 the Chancellor wants to announce
 this issue now. 7.5% is also
 consistent with some future increase
 in market rates.

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DNS will announce at the same time a corresponding rise in the rate offered on the Yearly Plan. The current monthly investment limit of £200 remains unchanged.

*Yours sincerely,
Guy R. Westhead.*

GUY WESTHEAD
Assistant Private Secretary