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PRIME MINISTER

NATIONAL SAVINGS CERTIFICATES

I went back to the Treasury to ask them to reconsider whether setting the new certificate at 8 per cent was too low. It was clear from my enquiries that a range of options between 8 and 8 and a half per cent had been considered but the bottom end of the range was chosen because the damage done by undermining the BT issue or fuelling the building societies' spiral was thought to be greater than the damage done if inflows were disappointing (given the fact that NSC inflows are now ahead of schedule). The Treasury have put forward an additional argument, to which I believe the Chancellor attaches some importance. By aiming low the Government will be seen as supporting the optimism emerging from the Finance meetings about lower US interest rates (though I would take anything coming from Mr Regan with a pinch of salt).

The Economic Secretary reviewed the arguments again this afternoon and still feels that 8 per cent is the best choice.

Now that this has been considered carefully, agree to go along with the Treasury's judgement?

*Yes*

*AT*

Andrew Turnbull

25 September 1984





10 DOWNING STREET

*From the Private Secretary*

26 September 1984

NATIONAL SAVINGS

The Prime Minister saw your letter to me of 24 September. Her initial reaction was that a rate of 8 per cent for the new National Savings Certificate looked rather low. She is grateful to the Economic Secretary for having reconsidered the arguments. She has noted that, having done so, he remains of the view that 8 per cent is the most appropriate rate given the factors involved. She is, therefore, content for him to proceed as originally proposed.

Andrew Turnbull

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