

NS&I

Interest rates slashed

National Savings and Investments, or NS&I as they are more commonly known, announced recently that both their interest rates and Premium Bond prizes are to fall at the end of this year.

What has changed?

In respect of their variable rate products, the following changes will come into effect from 24th November 2020:

PRODUCT	CURRENT APR	NEW APR FROM 24 TH NOVEMBER 2020
Direct ISA	0.90%	0.10%
Direct Saver	1.00%	0.15%
Income Bonds	1.15%	0.01%
Investment Account	0.80%	0.01%
Junior ISA	3.25%	1.50%

The most significant changes are those to their Income Bonds and Junior ISA products, which will fall by 1.14% and 1.75% respectively in November!

The winning odds for their Premium Bonds will also fall from 24,500-to-1 to 34,500-to-1 as of December 2020. This means that the quoted annual prize fund interest rate will fall from 1.40% to 1.00% per annum. Furthermore, the number of £100,000 and £50,000 prize winners will also fall to reflect the reduced prize pot.

Why has this changed?

NS&I were originally planning on reducing their rates as of May of this year, however, as a result of the additional spending by the UK Government in response to Covid 19, the Treasury sought to raise a further £35 billion through their NS&I arrangements in order to help with cashflow. They therefore kept the interest rates 'inflated' in order to attract more savers.

It is safe to say that this worked! With most high street bank accounts offering next to nothing at present, many customers switched their cash holdings to NS&I in order to chase that greater return. Between April and June this year, NS&I saw inflows of £19.9bn, with similar inflows between June and now.

The Chief Executive, Ian Ackerley, commented that 'Given successive reductions in the Bank of England base rate in March, and subsequent reductions in interest rates by other providers, several of our products have become "best buy" and we have experienced extremely high demand as a consequence'. As a result, they have now taken the decision to reduce their rates to be more in-line with the general market.

What does this mean?

Whilst the Consumer Price Index did fall to 0.2% for August (helped by the 'Eat Out to Help Out' scheme and reduction in VAT), this still exceeds that of interest payable. As the general price of goods and services continues to outstrip interest rates, the real value of your cash savings will continue to fall over time.

It now seems that, apart from certain fixed-term accounts, the vast majority of cash accounts are now all quoting dire interest rates. And with some experts suggesting inflation will remain low for some time, it is anyone's guess when this will change!