

NS&I interest rates

Synopsis: NS&I have announced cuts to their variable interest rates.

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In last year's Autumn Statement the Chancellor used his speech to announce that in spring National Savings & Investments (NS&I) would launch a new 3-year savings bond with a 'market leading' interest rate, to remain on offer for 12 months. The interest rate is to be revealed at launch, but 'indicatively' in November 2016 it was put at 2.2%.

What Mr Hammond did not say, but what was revealed in the Treasury notes, was that for 2016/17 he had increased the amount of funds to be raised by NS&I by £3bn to a range of £7bn - £11bn.

Those two factors may explain why it has taken NS&I until now to react to the 0.25% base rate cut which occurred on 4 August 2016. However, it has now done so, albeit with the usual delay in new rates taking effect...

Product	Current rate	New rate	Effective
Direct ISA	1.00% tax-free/AER	0.75% tax-free/AER	1 May 2017
Direct Saver	0.80% gross/AER	0.75% gross/AER	1 May 2017
Income Bonds	1.00% gross/AER	0.75% gross/AER	1 May 2017
Premium Bonds	1.25% 30,000:1 monthly odds	1.15% 30,000:1 monthly odds	1 May 2017

For premium bonds, the reduction in the interest rate has not this time been accompanied by any further reshuffling of the prize distribution split. It will therefore remain the case that 90% of the prize fund (representing 99.77% of all winning draws) will be for prizes of £100 or less, with 97.9% of all prizes the £25 minimum.

Even at these lowly rates, NS&I represents a relatively expensive way for the Treasury to raise cash. On the day that NS&I made its rate cut announcement, the Treasury's Debt Management Office announced that it had sold £3bn of a two year gilt at an average yield of just 0.17%.

Comment

It will be interesting to see just how 'market-leading' the new NS&I 3-year bond will be when launched in late spring: the market expects it could be 2.2%.

Unlike the pre-election 65+ bonds, which were widely criticised as an expensive bribe of up to £20,000 per pensioner, the investment limit on the new offering will be only £3,000.

The best interest rates generally available on the market often have a temporary bonus: this is bait pricing to attract deposits with the hope that investor inertia leaves money invested when the rate declines.