

13 July 2010

Inflation falls slightly but so do savings rates

Inflation figures released today show that the Consumer Price Index (CPI) has fallen marginally to 3.20%, still way above the Government's 2% target.

But the VAT increase, which is to be implemented first thing next year, could stunt any longer term reductions.

To stop their savings pot effectively eroding away, a basic rate tax payer needs to find an account paying 4.00%, while a higher rate tax payer needs to find an account offering 5.33%.

Basic rate tax payers have access to 47 accounts, but most still require an existing riskier longer term investment product at the same time.

Savers hardest hit by the rise in inflation are those who rely on their savings to supplement their income, many of whom are pensioners. The average savings pot of a basic rate tax payer is in effect being eroded by 2.62% per year.

Darren Cook, spokesperson for **Moneyfacts.co.uk**, commented:

"Inflation may return to its upward spiral when the Vat increase is implemented at the beginning of next year.

"Savers may be getting a short respite from a marginal fall in inflation, but savings rates are continuing to fall.

"The average one year fixed bond rate has fallen from 2.72% in May to 2.62% in July and the average five year fixed bond rate has fallen from 4.35% to 4.12% for the same period.

"The average instant access savings rate seems to have hit rock bottom with the rate remaining at 0.73% for the past three months and a Base rate increase could be the only trigger to force an improvement.

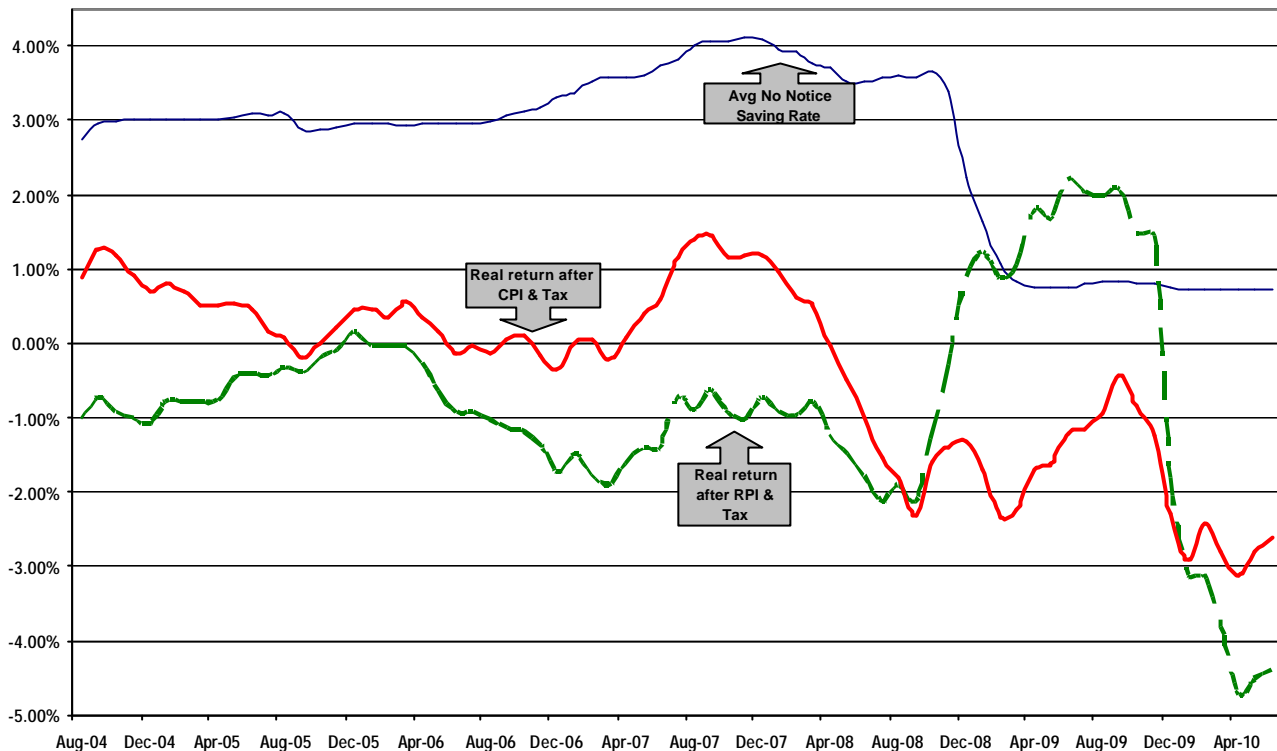
"Prudent savers are finding it almost impossible to combat the effects of tax and inflation.

"To break even, higher rate tax payers need to find an account paying 5.33%, a level that is nigh on impossible to achieve.

"Basic rate tax payers have an option of 47 accounts to break even at 4.00%, but restrictions on the accounts mean they will be suitable for very few.

"The only reward for savers could a rise in Bank base rate sooner than later and better savings rates."

Real return on average savings rate (basic rate taxpayer)



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