## Interest rates to rise

***The Governor of the Bank of England (BoE) is hinting at interest rate rises again.***

"It would not seem unreasonable to me to expect that once normalisation begins, interest rate increases would proceed slowly and rise to a level in the medium term that is perhaps about half as high as historical averages. In my view, the decision as to when to start such a process of adjustment will likely come into sharper relief around the turn of this year."

Those measured words, delivered by the BoE Governor Mark Carney in a lecture at Lincoln Cathedral, were the latest indication that the 0.5% base rate, born in March 2009, may not survive until its seventh birthday. Mr Carney has some unfortunate form in talking about interest rate rises, but in that all-too-dangerous phrase, this time it's different. For a start, the rate of inflation will begin to pick up towards the end of the year, as last year's sharp fuel price cuts drop out of the yearly figures. At the same time earnings growth has been increasing – the latest statistics show an annual increase (including bonuses) of 3.2%. Unemployment remains at relatively low levels and the figures for overall economic growth released in late July showed that the economy had bounced back from the first quarter's disappointing 0.4% growth.

A further factor, although probably not one that the Bank would own up to, is that US interest rates also look set to rise by the end of the year. In a July presentation to the US Congress, Janet Yellen, Mr Carney's American counterpart, suggested that the conditions for an interest rate increase (from a 0%-0.25% range) would arrive "sometime this year". She also echoed Mr Carney's view that once rates started to move upwards, the path would be gentle and rates would remain below the level viewed as "normal in the longer run".

All of which means that your bank and building society are unlikely to pay you very much more interest on your deposits in 2016. However, unless you are an additional rate taxpayer, changes due in 2016/17 will mean you have up to £200 less tax to pay on your interest. If your need is income, then there are plenty of other options that can provide a higher income return. For example, the 2016/17 dividend reform announced in July's Budget will allow you to receive up to £5,000 of dividend income with no tax to pay, regardless of your personal tax rate.

*The value of your investment can go down as well as up and you may not get back the full amount you invested. Past performance is not a reliable indicator of future performance. Investing in shares should be regarded as a long-term investment and should fit in with your overall attitude to risk and financial circumstances.*