Introducing the new NS&I bond – is that it?

The Budget confirmed the rate on the new National Savings & Investments Bond.

2.2%

That is the fixed rate on the “welcome break for hard-pressed savers” which Mr Hammond confirmed in last month’s Budget. The new NS&I three year fixed rate bond will be available from April for a period of 12 months. The maximum investment will be £3,000, although unlike its widely popular pre-election predecessor, it will be available to anyone aged 16 or over.

2.2% is a ‘market-leading’ rate, as the Chancellor promised in his Autumn Statement. At the time of writing, the best three year fixed rate on offer elsewhere was 1.9%. In the government’s accounts, the new bond is shown as a ‘spend’ item, with a total cost of £290 million. That sum reflects the fact that the Treasury could borrow money at a much lower interest rate and administrative cost from institutional investors.

It could be argued that those taxpayers who don’t invest in the new bond are subsiding those who do. However, if you do invest, you may find that the return does not keep pace with inflation over the next three years – it is already below February’s 2.3% inflation rate. Your return could be even further below inflation if you have to pay tax on the interest because you have exhausted your personal savings allowance.

With hindsight, the new bond could prove to be one government gift horse whose mouth is worth a careful examination. There could be better options.

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.