**Inflation woes for savers**

**Savers are being hit by a further rise in inflation as well as falling rates.**

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Consumer Price Inflation (CPI) showed an unexpected rise from 3pc to 3.4pc, where economists had expected a more modest rise to 3.1pc.

The figures are bad news for savers, who will find the real value of their savings erodes fast if they cannot find accounts paying rates to match the inflation increase. According to financial website Moneynet, savers paying basic rate tax need to find an account paying over 4.25pc to ensure their savings keep pace with inflation. Higher rate taxpayers would need to find an account paying 5.67pc to match the CPI figures.

 Andrew Hagger, at Moneynet, said that savers would struggle more than ever to find these rates, because providers had been slashing the rates on fixed rate savings bonds in recent months. In October 2009, when the CPI inflation rate was just 1.5pc, it was possible to find fixed rate savings accounts paying up to 5.65pc, if you were willing to tie up your money for five years. Now, the best rate for a five year bond is just 5pc. The situation for shorter term one year bonds is even worse, with the best buy produce offering 3.2pc against 3.95pc six months ago.

"The competition for deposits which drove up fixed rates in the second half of last year has all but faded away," Mr Hagger warned. "The situation for savers has been dire ever since the Government turned to its rate cutting strategy in October 2008 and there's precious little in any of the manifestos from the three main political parties to indicated that the situation will improve after May 6."

Inflation figures were pushed higher by a rise in the price of petrol and food. The weakness in the pound is also forcing companies to raise the prices of imported goods. The rate of inflation is now way above the Bank of England's set target of 2pc and at its highest level since January. Other rising costs included household gas bills, which had fallen in March 2009 but were flat this year, helping to push up the annual pace of rising prices. Clothing prices also rose, partly due to the weak pound, while airfares were up 11.3pc on last year.

Source: <http://www.telegraph.co.uk/finance/personalfinance/savings/7610108/Inflation-woes-for-savers.html>

1. What effect of inflation is being discussed in the article?
2. What are the causes of inflation that are mentioned in the article?
3. If 5.65% rates are available, why don’t people just put their money in those accounts?