

Bank of England raises Interest Rates to 0.25%

Despite conflicting data, the Bank of England has decided to raise their benchmark interest rate from 0.1% to 0.25%

LONDON, UNITED KINGDOM, December 16, 2021 / EINPresswire.com/ -- With inflation hitting 5.1% yesterday, unemployment falling, and a booming [housing market](#) where growth is running at 10% annually (according to Nationwide Building Society) there is certainly a lot of heat in the [mortgage market](#).



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However, that is also with the backdrop of GDP stalling to just 0.1% growth in October, increased restrictions since and the US Federal Reserve withdrawing stimulus as US inflation is at 6.8% and set to raise interest rates next year. So, the Bank of England felt that these risks outweighed the prospect of inflation moving higher in the short term.

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This decision was never easy, whichever way the Bank of England chose would have drawn criticism. Perhaps moving rates as expected in November now looks like it would have been a more sensible move.”

Richard Campo

What does this mean for [mortgage](#) rates? Don't get caught out on a Discounted Variable deal. Any variable rate linked to the Bank of England will only move in line with changes the BoE makes, these are typically called Trackers and will update within a month of any change. What catches some people out are Discounted Rates, as these are typically linked to the lenders' own Standard Variable Rate.

While the vast majority of lenders move their Variable Rate in line with the Bank of England, they don't always do that. It can be by less, but it can also be by more. The way people get caught out is that lenders often change their

variable rate the month AFTER the BoE makes a change, which means there are many Discount rates topping all the Best Buy tables for a good few weeks after a change in the Base Rate simply because they have not caught up yet.

Therefore borrowers need to look very carefully at a few key questions. When did the lender last update their variable rate? What have they done previously? How much more do you think rates will go up in order to see if it works out cheaper?

For these reasons, it's felt they are best left alone. A fixed rate is simpler, and a Tracker rate is clearer. It's a bit of an old-school practice with Discounted rates which are often used by smaller Building Societies but in a rising rate market, borrowers are likely to see this until rates stabilize again, which could be a good few years by the looks of things.

Look at the margin between Fixed and Variable Interest Rates. This is always the biggest hint of where lenders think rates are going over the next 2 – 5 years. In recent weeks many lenders have introduced Tracker/Discount rates that are around 0.1% - 0.25% cheaper than the fixed rates they are offering. That is always a clear guide that rates are likely to rise, but more crucially, it can indicate by how much.

In a simple example, if a 2-year Tracker is 0.2% cheaper than a fixed rate, lenders expect rates to go up by at least 0.4%, so it may start cheaper, then with a rate rise increases to the same level of the fixed-rate, but then another rise makes the Tracker more expensive. That way the lender collects the same level of interest (or more should rates go even higher) than on a fixed rate. So picking a higher fixed rate at the start may save more money than a lower-priced Tracker.

The Bank of England meets every 6 weeks, and the real test will be next year. If inflation does start to come back toward the 2% target level the Bank of England set, there may be more interest rate rises, or tightening of other fiscal stimuli until this level has been achieved. Some analysts expect a steady and slow rise in interest rates well into 2023 reflected in the same likely trends from a mortgage perspective.

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