Bank of England unveils biggest interest rate rise in 27 years

T
he Bank of England raised interest rates by half a percentage point on Thursday in the biggest increase in the cost of borrowing for 27 years.

It is the sixth consecutive hike from the Bank's Monetary Policy Committee (MPC) since December and lifts its key lending rate from 1.25 per cent to 1.75 per cent.

The move, which was widely expected in the City, will mean an immediate increase in mortgage bills for millions of home owners on tracker or variable mortgages that move in line with the Bank of England rate.

It will add around £62 to the monthly cost of a typical £250,000 London mortgage.

Around three quarters of mortgage holders are on fixed rates but face having to remortgage at much higher costs when their deals expire.

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The Bank has been forced to act by surging inflation driven by soaring energy and fuel costs that have spiked since Russian invaded Ukraine in February.

It also warfned today that inflation will hit 13 per cent and the economy will dive into a long recession at the end of the year.

The rate move was approved by the MPC – chaired by Bank Governor Andrew Bailey – at its meeting on Thursday. It follows a wave of similar moves by central banks all over the world.

Last week, the US Federal Reserve increased its benchmark rate by 0.75 per cent in its fourth rise of the year. A week before that the European Central Bank, which is charge of setting interest rates in the Eurozone, pushed its key rate up by 0.5 per cent.

The Bank on Thursday decided it had no choice to follow suit with a bigger than usual move to help fight the battle against inflation.

The Consumer Prices index stood at a 40 year high of 9.4 per cent in June and is forecast to peak at 13 per cent over the winter when the next swinging round of energy bills rises kick in.

Mr Bailey warned that more interest rate rises would follow if inflation did not appear to be coming under control. He said: “The committee will be particularly alert to indications of more persistent inflationary pressures, and will if necessary act forcefully in response. All options are on the table for our September meeting, and beyond that.”

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Andrew Hagger, Personal Finance Expert, Moneycomms.co.uk said:

“The MPC decision to hike rates for the sixth time since last December will make borrowers wince at the thought of spiralling monthly mortgage costs.

“The last time there were six consecutive base rate increases was 6th November 1997.

“Customers currently on a fixed rate will avoid immediate financial pain, but for many a triple digit increase is inevitable next time their mortgage deal comes up for renewal.

“Increased borrowing costs in isolation would usually cause people to tighten their belts but add this to the mix of out-of-control energy prices, food costs and fuel bills, and some people are facing a financial catastrophe”.

Alastair Douglas, CEO of credit app TotallyMoney said: “The latest interest rate hike will serve as yet another blow to the two million mortgage borrowers without a fixed-rate deal.

“What’s more, this isn’t an isolated problem. With everything ranging from phone bills to food feeding inflation, costs will continue to soar over the upcoming months, increasing pressure on household finances for millions.

“The one in three homeowners whose fixed-rate deal is soon coming to an end should start planning ahead. Not only is the SVR rising, but new deals are also getting more expensive. Either way, you’re likely to be paying more, so it’s worth looking at your options in advance.“