Mortgages could spike again as interest rates set for biggest rise since 1980s

T
he Bank of England is expected to unveil the biggest interest rate rise since the 1980s on Thursday as it tries to control the runaway inflation which is battering British households.

In a crunch meeting, the nine members of the Monetary Policy Committee will make a decision that could push up the amount that millions of mortgage holders have to pay their banks every month.

The consequential decision is expected to push up the Bank's base interest rate from 2.25% currently to 3%, the highest since 2008. Mortgages are decided against this rate.

If – as expected – the Bank raises interest rates by 0.75 percentage points, it would be the biggest single increase since 1989.

It will also be the eighth time in a row that the Bank hikes interest rates. Less than a year ago the rate was 0.1%.

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Earlier this month, markets had predicted the interest rate increase could be as much as one percentage point but sentiment has calmed somewhat after the change of Chancellor and Prime Minister and Bank of England bond purchases pushed down on the cost of borrowing.

Markets have also witnessed a decreased appetite for large hikes globally.

The US Federal Reserve increased rates by another 0.75 percentage points on Wednesday, but signalled that while further increases were likely to rein in inflation, they may be smaller and it could slow the pace of future rises.

The Bank of Canada also recently increased its interest rate by 0.5 percentage points, below the 0.75 percentage point rise which had been widely predicted.

Nevertheless, last month Bank of England Governor Andrew Bailey said it was likely the hike in interest rates could be bigger than the 0.5 percentage point increase to 2.25% seen at the previous meeting.

He said on October 15: “As things stand today, my best guess is that inflationary pressures will require a stronger response than we perhaps thought in August.”

Analysts at Deutsche Bank have said they expect the Bank of England to opt for a 0.75 percentage point rise with a split vote.

Experts at the firm said they expect latest forecasts from the Bank of England, which will also be revealed on Thursday, to show that “the economic outlook has deteriorated further”.

They added: “Conditioned on market pricing, the UK economy will likely fall into a deeper and more prolonged recession.”

The Bank will also confirm its inflation expectations for the longer term, which are due to show that the cost of living will be much higher than the central bank’s 2% target next year.

James Smith, developed markets analyst at ING, also had a downbeat prediction for Bank’s latest economic outlook.

“The new set of forecasts due, which crucially are based on market interest rate expectations, are likely to be dismal – showing both a deep recession and inflation falling below target in the medium term,” he said.

“That should be read as a not-so-subtle hint that market pricing is inconsistent with achieving its inflation goal.”