Get ready for the first rate hike in 10 years

Younger borrowers might not remember the last rise in Bank rate. But the ultra-low era is about to end

Interest rates look set to rise this week for the first time in a decade. More than two-thirds of leading economists expect the Bank of England to increase rates on Thursday, according to the latest monthly Reuters poll. It found that 46 of 64 economists think Bank rate will rise by 0.25 points, reversing the cut made in August last year. Here we answer your questions about what happens if they are right.

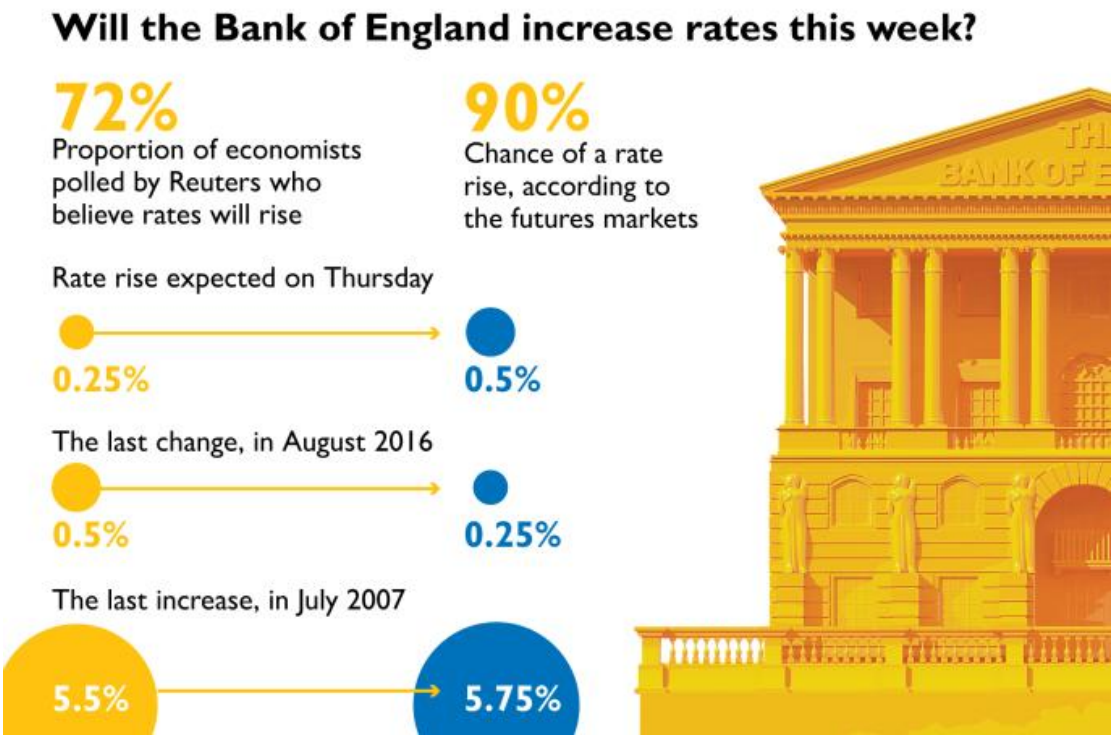
Will rates rise on Thursday?
Mark Carney, the Bank's governor, said last month he expected rates to increase "in the relatively near term".

Since then, new economic figures have made a rise more likely. The UK economy had higher than expected growth in the three months to September, with gross domestic product (GDP) rising 0.4%.

Ben Kumar, investment manager at Seven Investment Management, said: "The market has been pricing in a November interest-rate hike at an 80%-90% probability since the start of October. The Bank of England is eager to undo the emergency rate cut made following the Brexit referendum last year, and the GDP release will bolster their case."

The consumer prices index measure of inflation hit a five-year high of 3% this month, which could also persuade the monetary policy committee that an increase is needed.

However, there is still a chance the committee will vote against a rise. Last week the Bank of England's deputy governor Jon Cunliffe described it as an "open question".



When did rates last move?
Bank rate last changed in August 2016, when it was cut to its current record low of 0.25%. It had been at 0.5% since March 2009. If a rise is announced, it will be the first increase since July 2007. Back then, rates were hiked from 5.5% to 5.75%. Such a long period of stagnation means low rates are all younger savers and borrowers know.

What should homeowners do?
The average variable-rate borrower will pay £198 more in annual repayments if Bank rate goes up to 0.5%, according to the online mortgage broker Trussle.

Collectively, this will cost the 5m UK borrowers who have variable-rate mortgages an extra £83m in the first month alone.

Someone borrowing £500,000 will typically have to find an extra £643 a year, according to the broker largemortgageloans.com.

But switching to a better deal will help. Citizens Advice claims borrowers paying their lender's standard variable rate lose out by £439 a year on average, compared with someone on a two-year fixed-rate deal.

Those on market-leading tracker deals may want to stay put. After November, most economists in the Reuters poll expect no further hikes from the Bank for the whole of next year.

Many fixed mortgage rates are linked to government bonds rather than Bank rate, so they have already started to get more expensive. Halifax, Skipton and Nationwide have all announced increases in recent weeks.

Will savings rates go up?
Savers will be delighted to hear that a rate rise is on the horizon, even if it is a small one. But beware: although most variable savings accounts are linked to the Bank rate, providers often fail to pass on increases to their customers.

Sarah Coles, a personal finance analyst at the adviser Hargreaves Lansdown, said: "The Bank of England's term funding scheme provides banks with low-cost money, which can then be loaned to businesses to help boost the economy.

"Add this to quantitative easing and it's easy to see why the high-street banks have plenty of cash, so are unlikely to lift savings rates to attract new customers in the immediate future."

Even so, you could earn close to £130 in extra interest a year by transferring £10,000 from an easy-access account paying 0.1% to one of the market-leading accounts paying 1.3%.

RCI Bank and Birmingham Midshires are currently offering 1.3%, while BLME and Vanquis have pushed five-year bond rates to a 14-month high with deals at about 2.5%.

Coles also expects challenger banks to be the ones to watch in the event of a rate rise. "They are the ones likely to be competing hard for your money," she said.

How will credit card borrowers be affected?
Interest rates on credit cards are already at a 10-year high, according to the analyst Moneyfacts. The average rate charged by credit cards, including store cards and "credit repair" cards, is now 23% a year — the highest since Moneyfacts' records began.

As these rates are generally variable, they are likely to increase further if the Bank of England votes for a rise.

There are lots of more competitive deals available, though. Say you have a £1,000 balance that you are paying off at £30 a month. You could save £420 over the term by switching from a card charging the average rate of 23% to the Lloyds Platinum credit card at just 5.7%.

The potential savings available are even greater if you move to a 0% balance transfer card — as long as you clear the debt within the interest-free period. Tesco bank, for example, is promoting a card charging 0% for 39 months, in return for a 2.69% balance transfer fee.

You can also pay 0% for 29 months with the fee-free Halifax balance transfer card. This means if you moved your £1,000 balance to this card, you would need to pay back £35 a month to ensure you do not pay any interest.

What does it mean for investors?
Higher interest rates generally push down the price of government and corporate bonds.

Darius McDermott, managing director of Chelsea Financial Services, said: "Bonds normally struggle in a rate-rising environment, although the predicted November rise has been well signposted to the market."

Rising rates can also have a negative impact on companies that pay a high dividend, as they become less attractive in relation to savings accounts, depressing those share prices.

Financial stocks such as banks, on the other hand, benefit from higher margins when interest rates go up, so their share prices could rise.

McDermott's picks for investors keen to cash in on a rate rise include the Schroder Recovery fund, which has 33% exposure to financials, and Investec UK Special Situations, which is 29% invested in the financial sector.

The Times - Jessica Bown - October 29th 2017
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