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Households Losing Out Despite Bank of England's Rate Cuts

August 4, 2025

— Categories: Real Estate



A year after the Bank of England (BoE) began cutting interest rates, new data reveals UK households are collectively £11 billion worse off, as mortgage costs remain high and returns on savings decline.

Despite the BoE's four consecutive rate reductions, families across the country have yet to see meaningful relief. While savers have quickly felt the pinch through lower returns on deposits, most homeowners have not yet benefited from cheaper mortgages due to many being locked into older, higher-rate deals.

According to Bloomberg's analysis of central bank data, the drop in savings income and the delayed impact on mortgage payments are placing a growing burden on households. The BoE's base rate has been cut from 5.25 per cent over the past year, with expectations of a further reduction to 4 per cent this week. But the wider economic benefit remains limited.

Household finances have taken a hit on two fronts. Savers have missed out on around £5 billion in income from interest-bearing accounts such as tax-free Individual Savings Accounts (ISAs), sight deposits, and fixed-term accounts. Meanwhile, the annual cost of borrowing through mortgages and unsecured loans, including credit cards, has risen by approximately £6 billion over the same period.

Although the BoE's easing strategy aims to stimulate consumer spending and economic growth, the effects are being felt unevenly. Borrowers are still transitioning to higher mortgage rates set during the inflation surge of the past two years, while banks have been quick to slash deposit rates.

James Smith, a developed markets economist at ING, noted, "The implication is that the impact of rate cuts is going to be very gradual, amplified by the fact that the pace of cuts is also pretty glacial."

The BoE's monetary policy decisions are made in the context of broader challenges, including rising energy bills and concerns over wage inflation. Inflation recently hit a 17-month high, surpassing earlier projections made in May. With pressure from global trade tensions and tighter domestic fiscal policy, policymakers are treading carefully.

Governor Andrew Bailey is expected to be cautious about further rate cuts, wary of encouraging expectations that may fuel wage demands. As workers seek to protect their purchasing power, any rapid easing could risk reigniting price pressures.

The data show that the average mortgage interest rate across the UK's £1.7 trillion mortgage market has climbed by 0.2 percentage points since July 2024. Meanwhile, time deposit rates have fallen by 0.4 percentage points and sight deposit rates by 0.2, affecting returns on nearly £1.8 trillion of savings.

The BoE has warned that many borrowers have yet to experience the full effect of earlier rate hikes. Over the next two years, a typical mortgage holder could see an additional £1,300 added to their annual repayments as fixed-rate deals roll off.

About one million mortgage holders are still paying above the average market rate, meaning they won't benefit from lower interest rates until their current agreements expire.

The uncertainty is also reflected in consumer behaviour. GfK's latest savings index showed a sharp rise in July, reaching its highest point since 2007. Analysts believe this signals widespread caution among households, many of whom are saving rather than spending amid fears of future tax rises.

Edward Allenby, UK economist at Oxford Economics, warned that the economic drag from high borrowing costs would persist. "Alongside softer real pay growth and tighter fiscal policy, the lagged impact of past rate hikes on mortgagors will continue to weigh on consumer spending," he said. "Furthermore, the BoE's rate-cutting cycle is unlikely to provide much of a tailwind for business investment and consumer spending over the next couple of years."

Traders and analysts now expect the BoE to continue with a measured, quarterly pace of easing, bringing interest rates down to around 3.5 per cent by spring 2026. However, this would still leave borrowing costs well above the sub-1 per cent rates seen just before the inflationary surge began in 2022.