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BoE Cuts Leave Households £11bn Worse Off

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LONDON, One year after the Bank of England (BoE) began reducing interest rates, the financial burden on British households continues to grow, with savings returns falling and mortgage costs remaining stubbornly high.

An analysis of official BoE data by Bloomberg shows that households are, in total, £11 billion worse off annually than they were in July 2024. Despite four rate cuts in that time, homeowners and savers have seen little in the way of relief.

Banks and building societies were swift to reduce interest paid on deposits following each cut, yet mortgage holders have not enjoyed the same speed of benefit. Many remain tied to fixed-rate deals taken out when the base rate hit 5.25%, the highest since the global financial crisis.

This discrepancy between falling savings returns and persistent borrowing costs highlights the difficult balancing act facing central bankers attempting to support a faltering economy without worsening household pressures.

Consumer spending remains critical to the UK economy, accounting for approximately 60% of GDP. But with tax rises introduced in April by Chancellor Rachel Reeves and continuing economic instability, many households appear to be holding back. GfK's July savings index reached its highest level since 2007, indicating a sharp uptick in saving over spending.

James Smith, developed markets economist at ING, commented: "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."

Over the past year, falling interest on Individual Savings Accounts, time deposits, and instant-access accounts has cost savers around £5 billion in lost earnings. In contrast, interest payments on mortgages and unsecured credit have risen by £6 billion, according to Bloomberg estimates based on BoE figures.

The BoE itself warns that the squeeze is far from over. Around one million mortgage holders are still paying above current market rates, with many facing a jump of roughly £1,300 in annual repayments as older fixed deals come to an end over the next two years.

Since the initial July 2024 rate cut, the average interest rate across the UK's £1.7 trillion mortgage market has increased by nearly 0.2 percentage points. Meanwhile, rates on time and sight deposits have fallen by 0.4 and 0.2 points respectively, reducing returns on £1.8 trillion in savings.

Markets expect the BoE to implement a fifth consecutive quarter-point cut this week, bringing the base rate to 4%. However, inflation, which was projected to fall earlier this year, has risen to a 17-month high. Much of the increase is attributed to higher energy prices and other short-term pressures, though there is concern that wage growth could further fuel inflationary trends.

BoE Governor Andrew Bailey is expected to reiterate the need for caution over the speed of rate reductions. While rates may settle near 3.5% by spring 2026, this is still significantly higher than the sub-1% levels seen before the inflation surge in 2022.

Oxford Economics' UK economist Edward Allenby noted: "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 added: "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."