MPC UPDATE

Kensington

BANK RAISES RATES TO 4% AS INFLATION PRESSURES INTENSIFY

ANDY BICKERS | COMMERCIAL DIRECTOR

The Bank of England's (BoE) Monetary Policy Committee (MPC) voted today to increase interest rates by 0.25 percentage points to 4%, marking the first rise in Bank Rate since August 2023 and bringing an end to six consecutive meetings without a change. The decision was backed by eight MPC members, with the remaining member favouring a larger 0.5 percentage point increase. This represents a significant shift from September's decision to hold rates, reflecting growing concern over the persistence of inflationary pressures.

The move follows a further deterioration in the UK's inflation outlook. Consumer Price Index (CPI) inflation rose to 3.5% in September, up from 3.1% in August, with higher motor fuel costs making the largest contribution to the increase. More significantly, the Bank now expects inflation to reach around 5% by the middle of 2027, suggesting that the challenge of returning price pressures sustainably to its 2% target has become more pronounced.

Continued global instability and elevated energy prices remain central to this outlook. Higher costs are increasingly affecting households and businesses, although the wider impact on wages and consumer prices has so far been relatively limited. Some businesses have been able to absorb rising costs through reduced profit margins or existing energy contracts, but these protections may prove temporary. The MPC's decision suggests policymakers are increasingly concerned that sustained cost pressures could become more deeply embedded in the economy.

At the same time, economic activity has proven more resilient than previously anticipated, adding to the case for tighter monetary policy. Although there are still signs of underlying weakness in the economy, stronger-than-expected growth has given the Bank further reason to act now rather than risk inflation becoming more persistent.

For the mortgage market, the impact of changing interest rate expectations has already been evident. The Bank noted that benchmark two-year mortgage rates have risen by nearly 50 basis points since the beginning of September, as lenders responded to shifting market conditions. While today's increase had been widely anticipated and may not trigger an immediate wave of fixed-rate repricing, lenders are likely to continue reviewing their products as funding costs and expectations for future rates evolve.

The consequences will be more immediate for borrowers on Bank Rate-linked tracker mortgages, who will generally see their interest rates increase by 0.25 percentage points in line with their product terms. For those approaching the end of a fixed-rate deal, meanwhile, recent movements in mortgage pricing reinforce the importance of understanding the options available and how affordability may be affected.

Despite today's decision, the Bank has been careful to emphasise that monetary policy is not on a predetermined path. Further increases remain a possibility if energy prices stay elevated and broader inflationary pressures begin to emerge. However, much will depend on how economic conditions develop over the coming months, particularly whether rising costs begin to influence wage growth and business pricing more widely.

For brokers, the changing environment presents an opportunity to provide valuable guidance at a time when mortgage decisions may be becoming more challenging. With households facing pressure from both borrowing costs and wider living expenses, understanding individual affordability requirements and the range of lending solutions available will be particularly important. By maintaining regular contact with clients and helping them assess their options in the context of current market conditions, brokers can support more informed decisions, whether customers are purchasing a property or looking to refinance.



Andy Bickers
Commercial Director

Andy has nearly 30 years of experience across a range of business functions and industries. He joined Kensington in February 2025 as Commercial Director with responsibility for proposition development, product management, marketing, customer experience and sales.

Prior to joining Kensington, Andy spent 13 years at Lloyds Banking Group in senior Product, Commercial and Transformation Director roles across UK Mortgages and Savings. In his earlier career, he worked in a variety of strategy, sales, marketing, pricing, proposition and finance roles across the Energy, Telecoms and FMCG sectors.

K.M ART 0097 NOV25

Kensington and Kensington Mortgages are trading names of Kensington Mortgage Company Limited. Registered in England & Wales: Company No. 03049877. Registered address: 2nd Floor, Marlow International, Parkway, Marlow, SL7 1YL. Kensington Mortgage Company Limited is authorised and regulated by the Financial Conduct Authority (Firm Reference No. 310336). Some investment mortgage contracts are not regulated by the FCA.