The recent Autumn Budget and prevailing economic conditions present a complex scenario for borrowers considering fixed mortgage rates. Chancellor Rachel Reeves' fiscal measures, including £40 billion in tax increases and £70 billion in spending, are projected to marginally elevate inflation by 0.4 percentage points, sparking concerns over prolonged inflationary pressures and market volatility.

The Bank of England is expected to reduce interest rates four times in 2025, bringing the base rate to 3.75%. However, this outlook is contingent on optimistic growth projections. If the Labour government struggles with growth targets, additional borrowing may sustain higher rates, whereas efforts to stimulate growth could necessitate further rate cuts. This creates a dynamic and unpredictable monetary landscape.

In such an environment, fixing mortgage rates at current levels offers stability and shields borrowers from potential rate increases. Nevertheless, this comes at the risk of foregoing lower borrowing costs if rates decline more quickly than anticipated. Decisions should align with individual financial priorities and risk tolerance.

A comparison of fixed and variable rates for residential and commercial properties highlights the relative attractiveness of fixing rates for 2-, 3-, and 5-year terms, given the following details:

- **Residential fixed rates**: 5.60% (2 years), 5.51% (3 years), 5.56% (5 years).
- **Commercial fixed rates**: 6.85% (2 years), 6.77% (3 years), 6.81% (5 years).

Forecasted base rate reductions will lower variable rates, but fixed rates provide predictability:

- **Residential variable rates** are projected to fall from 6.45% to 5.45% over five years.
- **Commercial variable rates** are expected to drop from 7.60% to 6.60% over the same period.

Key takeaways:

- Fixed rates offer a hedge against potential rate spikes amidst fiscal uncertainty.
- Variable rates may yield cost savings in a declining rate environment but carry higher short-term unpredictability.

Borrowers should carefully evaluate their financial goals and capacity to absorb potential risks when choosing between fixed and variable mortgage products.

Assumptions:

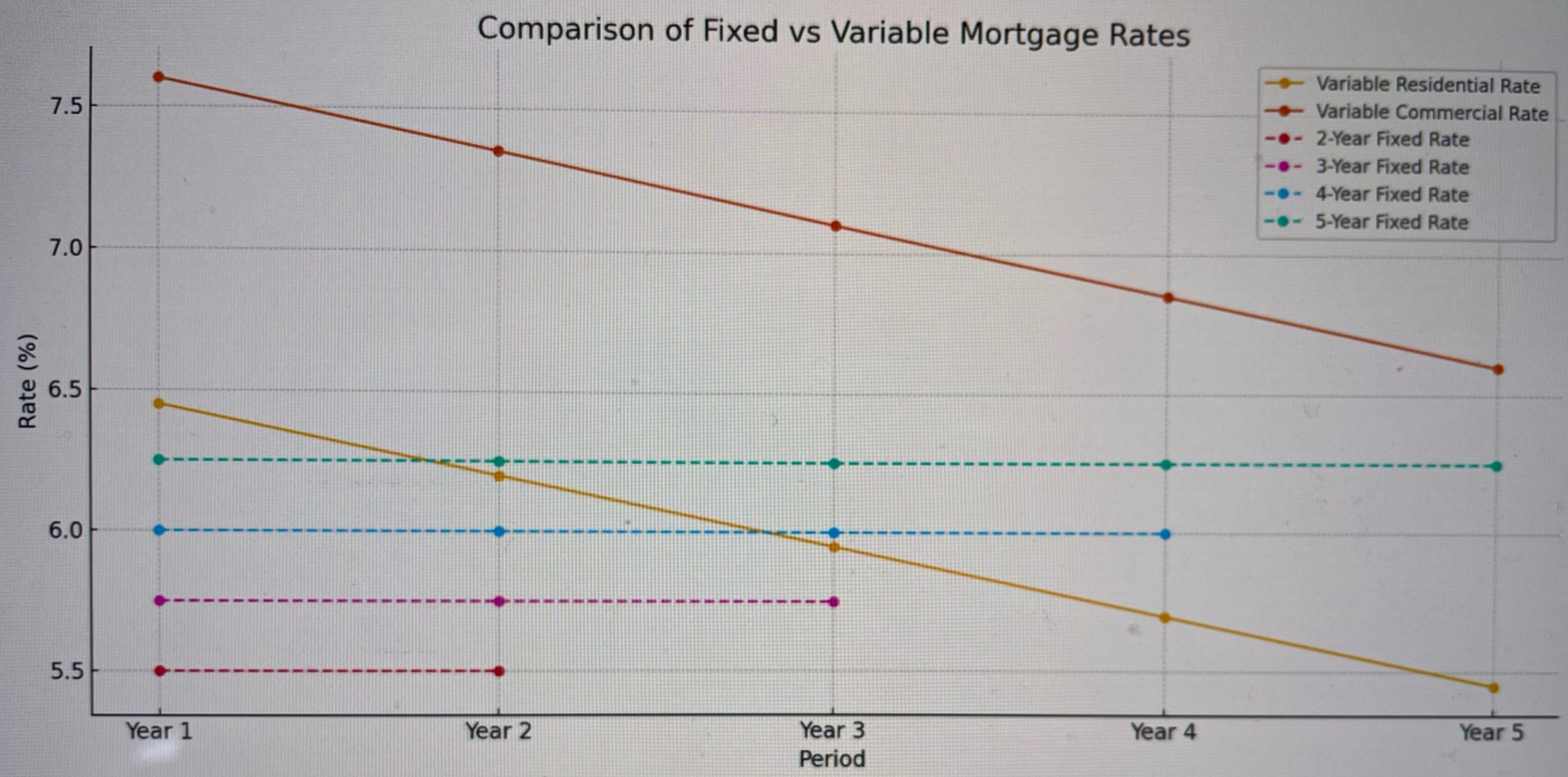
1.The following fix rates for 2,3- and 5-year term on offer from a commercial bank for significant mortgage and that current UK base rate is 4.75% and forecast to drop over the next 12months 3 or 4 times ending at a long term expected base rate of 3.75%.

2. The bank margin is 1.7% on residential properties and 2.85% on commercial properties

Residential:

2 year fix – 5.60%
3 year fix – 5.51%
5 year fix – 5.56%

Commercial:
2 year fix – 6.85%
3 year fix – 6.77%
5 year fix – 6.81%



The table and graph above compare fixed mortgage rates versus variable rates (base rate plus bank margin) over a five-year period. Key points include:

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Table:

Period	Base Rate Forecast (%)	Variable Residential Rate (%)	Variable Commercial Rate (%)	2-Year Fixed (%)	3-Year Fixed (%)	4-Year Fixed (%)	5-Year Fixed (%)
Year 1	4.75	6.45	7.60	5.50	5.75	6.00	6.25
Year 2	4.50	6.20	7.35	5.50	5.75	6.00	6.25
Year 3	4.25	5.95	7.10	Na	5.75	6.00	6.25
Year 4	4.00	5.70	6.85	Na	Na	6.00	6.25
Year 5	3.75	5.45	6.60	Na	Na	Na	6.25

Graph:

The graph visually illustrates:

- **Variable Rates**: These decrease over time, reflecting the forecasted drop in the base rate.
- **Fixed Rates**: These remain constant over their respective periods and are higher than the forecasted variable rates in the later years, particularly for residential properties.