

# Dear Chancellor, What are you going to do when interest...

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The average [UK mortgage loan is about £96,000](#). Many will be surprised by that, I suspect, but most mortgages are not new, of course.

The reason why I worry about mortgages is quite straightforward. We know interest rates are going to increase. The amount by which they will is arguable. I think a base rate of 3% is foreseeable. An increase of 1.25% by the end of 2015 is, on that basis, likely. The new plateau would be reached a year or so later.

But the implication is obvious , and is that within 18 months or so of a new parliament the more than 9 million households with mortgage debt will be seeing their average monthly outgoings increase by about £200 a month. That is, to put it in context, about £22 billion of consumer spending that will not be happening each year as a result - which is the equivalent of increasing VAT by more than 4%.

So the simple question to any potential Chancellor is how are you going to keep any recovery going in the face of this? And it would be naive to assume that all those extra mortgage payments will be compensated for by increased income payments to savers who will consume instead. Firstly, savers by definition don't spend all they earn: that is why they are savers. Second, I cannot see savings rates rising by as much as mortgage rates; that never happens. There will be some countervailing trend, of course, but by no means enough to compensate.

So I think the most direct question each prospective Chancellor will have to answer in a years time is how they will prevent an interest rate rise creating a seemingly inevitable new downturn in the economy. So far I have heard no answers.