In other countries, like America or Canada, a bigger share of mortgages are set at fixed rates. People with fixed rates are protected against the direct effects of an interest rate rise but will still feel an indirect impact. Higher interest rates mean that mortgages will become more expensive and as result house prices will begin to fall.

A rise in interest rates puts businesses in a situation where they will find it more expensive to borrow and invest. That generally means less economic activity which could create fewer jobs and lower wages which trickles down to lower spending.

What are the Risks of Raising Interest Rates?

In 1981, the Federal Reserve, America's central bank allowed interest rates to rise to a whopping 19%. The move curbed inflation, but it led to widespread economic pain. It is very difficult to get inflation under control without severely denting economic activity.

A little inflation is okay as it keeps the economy moving at a sensible speed but, inflation staying high for too long is a problem. Higher prices mean employees will need higher wages pushing up costs for businesses. That could drive up prices further potentially leading to an upward spiral of wages and prices.

It can take as long as two years to see the full results from interest rate changes. Because of this, when central banks set interest rates, they try to act into the future. Predicting the future is not an easy task and thus the challenge for central banks is to try and work out whether the inflation will fall back on its own. Although central banks might be right in terms of their actions and predictions, they might still cause a market crash.

It may be a blunt instrument but raising interest rates is still central banks' main tool for taming inflation. Raising interest rates can be painful. Slowing down the economy is not fun but it´s worth it to stay low and stable.