



Interest Rate Cut – October 2008

The Bank of England's Monetary Policy Committee (MPC) voted to keep rates on hold at 5% for the fifth month running at its September meeting. The decision was widely expected as, despite ongoing pressures in the housing and financial sectors, inflation had become a serious issue.

Interest rates had been held because inflation was ahead of target. Now, inflation has hit 4.7% and previous MPC minutes indicated they had switched emphasis from supporting economic growth to damping down these inflationary effects.

In the last month, however, things have changed considerably. The housing market was already faltering, and the credit markets remain tight. UK Government measures to help had generally been met with apathy. UK GDP has now officially hit zero and some fear we are already into a recession.

The final straw, however, was the financial sector. Lehman Brothers sought bankruptcy protection and AIG was bailed out by the US Federal Reserve. In the UK Lloyds TSB has agreed a rescue takeover of HBOS and the oil price has fallen back. Now, Bradford & Bingley has been nationalised as confidence in its future crashed.

All in all, the outlook for the economy was looking bleak. The Bank of England, in common with the US and European central banks, decided to move. Their unexpected 0.5% cut brings rates down to 4.5%.