



Rates reach all time low – 6th February 2009

In its latest attempt to revive the UK economy, the Bank of England (BoE) has cut UK interest rates to a new low of 1%. The half-percentage-point cut was widely expected, but it will inflict further pain on Britain's savers, who are already struggling with exceptionally low rates on their deposit accounts.

The UK is officially in recession. Consumer confidence has continued to evaporate, and inflation is falling fast, all amid speculation that the UK might hit an environment of deflation. Unemployment is rising, and the services sector is in decline. February's statement from the BoE's Monetary Policy Committee warned that "The global economy is in the throes of a severe and synchronised downturn", and the International Monetary Fund expects our economy to contract faster than any other industrialised country in 2009.

Some business groups believe that lower rates will not be sufficient to boost activity, and are urging the BoE to intensify pressure on banks to increase their lending activities. They believe lack of credit is ultimately more of a problem than the cost of borrowing. Many also believe the BoE will soon start to exercise its newly granted power to spend up to £50 billion buying high-quality assets in order to inject more money into the UK economy. In any case, with growing speculation that UK interest rates could actually hit zero, and sooner rather than later, the BoE will eventually be forced to look beyond monetary policy as a means of kick-starting the economy.