



**BANK OF ENGLAND**

# News release

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## **Bank of England Raises Bank Rate by 0.25 Percentage Points to 4.75%**

The Bank of England's Monetary Policy Committee today voted to raise the official Bank rate paid on commercial bank reserves by 0.25 percentage points to 4.75%.

The pace of economic activity has quickened in the past few months. Household spending appears to have recovered from its post-Christmas dip. Business investment growth and investment intentions have also picked up. In the United Kingdom 's main export markets growth has remained robust. As a result, over the past few quarters GDP growth has been at, or a little above, its long-run average and business surveys point to continued firm growth. The margin of spare capacity in the economy appears small.

CPI inflation picked up to 2.5% in June, and is expected to remain above the 2.0% target for some while. Higher energy prices have led to greater inflationary pressures, notwithstanding muted earnings growth and a squeeze on profit margins. Although the path of energy prices is extremely uncertain, energy price inflation is expected to moderate in the medium term. But some recovery in profit margins and pay growth is likely to mean that consumer price inflation will move only gradually back to the target.

Against the background of firm growth, limited spare capacity, rapid growth of broad money and credit, and with inflation likely to remain above the target for some while, the Committee judged that an increase of 0.25 percentage points in the official Bank rate to 4.75% was necessary to bring CPI inflation back to the target in the medium term.

The Committee's latest inflation and output projections will appear in the Inflation Report to be published on Wednesday 9 August.

The minutes of the meeting will be published at 9.30am on Wednesday 16 August.

### **Note to Editors**

The previous change in interest rates was a reduction of 0.25 percentage points to 4.5% on 4 August 2005.