



BANK OF ENGLAND

News release

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10 April 2008

Bank of England Reduces Bank Rate by 0.25 Percentage Points to 5.0%

The Bank of England's Monetary Policy Committee today voted to reduce the official Bank Rate paid on commercial bank reserves by 0.25 percentage points to 5.0%.

CPI inflation rose to 2.5% in February. The Committee expects inflation to rise further this year, reflecting the continuing impact of higher energy and food prices, as well as the recent depreciation of sterling on import costs. Such pressures are already evident in producer input costs and pricing intentions.

Even if commodity prices remain at their current high levels, inflation should fall back. But to ensure that inflation meets the 2% target in the medium term, the Committee needs to balance two risks. On the upside, above-target inflation this year could raise inflation expectations so that, in the absence of some margin of spare capacity, inflation would remain above the target. On the downside, the disruption in financial markets could lead to a slowdown in the economy that was sufficiently sharp to pull inflation below the target.

In the Committee's judgement, the balance of these risks to the inflation outlook in the medium term justifies a cut in Bank Rate this month. Credit conditions have tightened and the availability of credit appears to be worsening. While the recent depreciation in sterling will support net exports, the prospects for output growth abroad have deteriorated. In the United Kingdom, business surveys suggest that growth has begun to moderate and that a margin of spare capacity will emerge during this year. This should help to keep domestic inflationary pressures in check in the medium term.

Against that background, the Committee judged that a reduction in Bank Rate of 0.25 percentage points to 5.0% was necessary to meet the 2% target for CPI inflation in the medium term.

The minutes of the meeting will be published at 9.30am on Wednesday 23 April.

Note to Editors

The previous change in Bank Rate was a reduction of 0.25 percentage points to 5.25% on 7 February 2008.