



BANK OF ENGLAND

News release

Press Office

Threadneedle Street

London EC2R 8AH

T 020 7601 4411

F 020 7601 5460

press@bankofengland.co.uk

www.bankofengland.co.uk

4 December 2008

Bank of England Reduces Bank Rate by 1.0 Percentage Points to 2.0%

The Bank of England's Monetary Policy Committee today voted to reduce the official Bank Rate paid on commercial bank reserves by 1.0 percentage points to 2.0%.

In the United Kingdom, business surveys have weakened further and suggest that the downturn has gathered pace. Consumer spending and business investment have stalled, while residential investment has continued to fall. Activity indicators in the rest of the world have also weakened, though the further depreciation in sterling should moderate the impact of weaker global growth on the United Kingdom. And a number of fiscal measures to boost near-term demand are in train, both in the United Kingdom and overseas. Despite the actions taken to raise bank capital, ease funding and improve liquidity, conditions in money and credit markets remain extremely difficult. The Committee noted that it was unlikely that a normal volume of lending would be restored without further measures.

CPI inflation decreased to 4.5% in October. Cost pressures have also eased. Commodity prices continued to fall back. Pay growth remained subdued. And measures of inflation expectations fell back sharply. CPI inflation is likely to continue to drop back as the contributions from retail energy and food prices decline. The direct effect of the temporary reduction in Value Added Tax will also lower CPI inflation through much of next year, with a corresponding increase in inflation in 2010.

In the November Inflation Report, the Committee's projection for inflation showed a substantial risk of undershooting the 2% CPI inflation target in the medium term. The subsequent decline in market interest rates and the further depreciation in sterling have raised the profile for inflation since then. But the weaker outlook for activity in the near term and the further falls in commodity prices have lowered that profile. Although the temporary reduction in Value Added Tax will lead to some volatility in inflation over the next two years, the new fiscal plans are unlikely to have a significant effect on inflation beyond that horizon.

At its December meeting, the Committee judged that, at the existing level of Bank Rate and looking through the volatility in inflation associated with the movements in Value Added Tax, there remained a substantial risk of undershooting the 2% CPI inflation target in the medium term. Accordingly, the Committee determined that a further reduction in Bank Rate of 1.0 percentage points to 2.0% was necessary in order to meet the target in the medium term.

The minutes of the meeting will be published at 9.30am on Wednesday 17 December.

Notes to Editors

The previous change in Bank Rate was a reduction of 1.5 percentage points to 3.0% on 6 November 2008.