



BANK OF ENGLAND

News release

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Bank of England Reduces Bank Rate by 0.25 Percentage Points to 5.25%

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 5.25%.

The prospects for output growth abroad have deteriorated and the disruption to global financial markets has continued. In the United Kingdom, credit conditions for households and businesses are tightening. Consumer spending growth appears to have eased. Although the substantial fall in the sterling exchange rate is likely to promote re-balancing of total demand, output growth has moderated to around its historical average rate and business surveys suggest that further slowing is in prospect. These developments pose downside risks to the outlook for inflation.

CPI inflation, at 2.1% in December, was close to the 2% target, but higher energy and food prices are expected to raise inflation, possibly quite sharply, in the coming months. And the lower level of sterling will boost import costs. The impact on inflation should begin to fade later in the year, but measures of inflation expectations are currently elevated. These developments pose upside risks to the outlook for inflation further ahead.

Given this outlook for inflation, some slowing of demand growth, by reducing the pressure on capacity, is likely to be necessary to return inflation to target in the medium term. The Committee needs to balance the risk that a sharp slowing in activity pulls inflation below the target in the medium term against the risk that elevated inflation expectations keep inflation above target.

Against that background, the Committee judged that a reduction in Bank Rate of 0.25 percentage points to 5.25% was necessary to meet the 2% target for CPI inflation in the medium term.

The Committee's latest inflation and output projections will appear in the Inflation Report to be published on Wednesday 13 February.

The minutes of the meeting will be published at 9.30am on Wednesday 20 February.

Note to Editors

The previous change in Bank Rate was a reduction of 0.25 percentage points to 5.5% on 6 December 2007.