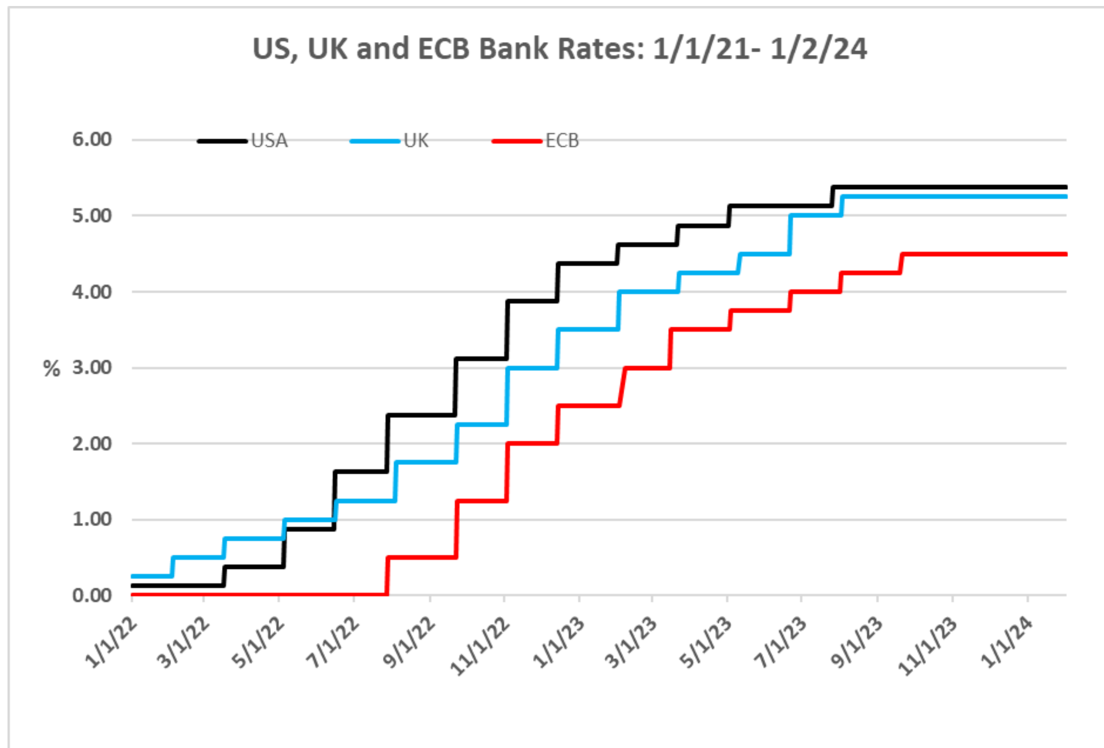
RISK ASSURED
LIFE INSURANCE SPECIALISTS

## Central Banks continue their pauses

Synopsis: Interest rates. The Bank of England has copied the US and Eurozone central banks and left interest rates unchanged.

Date published: 02.02.2024




The day after the Federal Reserve held its interest rate, and a week after the European Central Bank opted to keep its lending rate at 4.5% the Bank of England stood fast at a 5.25% bank rate, all to no great surprise. The central banks were equally united in efforts to tamper expectations of interest rate cuts starting in March.

The Bank of England's statement said 'CPI inflation is projected to fall temporarily to the 2% target in 2024 Q2 before increasing again in Q3 and Q4. This profile of inflation over the second half of the year is accounted for by developments in the direct energy price contribution to 12-month inflation, which becomes less negative. In the MPC's latest most likely, or modal, projection conditioned on the lower market-implied path for Bank Rate, CPI inflation is around 2¾% by the end of this year. It then remains above target over nearly all of the remainder of the forecast period. This reflects the persistence of domestic inflationary pressures, despite an increasing degree of slack in the economy. CPI inflation is projected to be 2.3% in two years' time and 1.9% in three years.'

The Bank's narrative echoes the caution of the Fed and ECB, both of which want more evidence that lower inflation rates are here to stay before starting the interest rate climb down. What all central bankers are anxious to avoid is cutting too soon

and then being forced to rapidly reverse the process – a painful memory of what happened in the USA during the early 1980s under Paul Volker.

Despite the Bank's pessimism, the Old Lady still was able to say that it would continue to monitor relevant economic indicators closely and 'On that basis, the [MPC] will keep under review for how long Bank Rate should be maintained at its current level.'

That phraseology was a marked change from December when, at the same point in the minutes, the Bank said, 'Further tightening in monetary policy would be required if there were evidence of more persistent inflationary pressures.'

As in December, six MPC members voted in favour of holding the rate. However, whereas the last meeting saw three calling for an increase, in February the hawks were only two in number, with one member calling for an immediate cut.

**Comment**

While the Bank is, by its own judgement, not on track for 2% inflation in two years' time, the focus is now clearly on when interest rates will begin to fall rather than whether any further increases might be necessary.

Markets are pricing in four cuts by the end of the year, which will probably not be on the Bank's agenda unless wage growth slows further. That in turn could be a hard ask, given April's 9.8% increase in the National Living Wage.



Risk Assured is authorised and regulated by the Financial Conduct Authority This information is based on our understanding of current legislation, regulations and HM Revenue and Customs practice at the published date. This technical paper should not be relied upon as it may be subject to change and should not be construed as advice. We take no responsibility for any advice given or contracts entered into on the basis of this technical paper. This information is intended for professional advisers only.
E&OE