

Interest rates

The Bank of England is independent when it comes to forecasting inflation and the economy. It has the sole right to fix the Base rate, the crucial short term interest rate that affects the returns of savers and the costs of borrowers,

All the time I was an MP I respected their Base rate power and did not advise on changes. I was critical of their forecasts of inflation when they were obviously wrong.

Now I can write and speak as I like about interest rates. The European Central Bank and the US Fed made similar mistakes to the Bank of England delivering inflations several times target level in 2022. The Japanese, Swiss and Chinese Central Banks did not make the same mistakes and their inflation stayed low, showing the inflation was not the result of lockdowns and the Ukraine war.

Over the last year the ECB has followed a better policy to correct past mistakes than the Bank of England. This week they rightly cut interest rates recognising sluggish growth and tight money and credit. The Bank of England should do the same.

The Bank will probably hold rates claiming it should not move them in an election period. That implies it suspends its own independence. The Bank needs to be seen to be independent on rates. Otherwise not cutting them now will be seen as pro Labour and cutting them now seen as pro Conservative . I think most people do believe the Bank is the independent setter of rates and I have not seen any Conservative government pressures on the Bank over rates.

The U.K. economy has been badly slowed by the Bank's very tough money policy 2023-4. Inflation will come down as a result. The Bank should cut, especially given its obstinate refusal to change its very damaging policy of over the top bond sales.