

The Bank of England wobbles

Members of the Monetary Policy Committee are now telling us that maybe they should cut interest rates after all. Having watched as their tight money policies predictably slow the economy, they now express surprise at what they have done and seek some change of tack.

I am not proposing a 25 bp rate cut. I would urge them to look at the substantial tightening their Bank has undertaken through changes to the capital buffers, tough guidance on lending and the cessation of the Funding for Lending scheme. There is practically no money growth in the UK, implying continued slow performance from the economy.

Meanwhile the reintroduction of Quantitative Easing by the ECB has led to a spurt of money growth which probably heralds some pick up in the economy later this year. The Fed has stimulated a sharp rise in money growth in the USA which probably means a decent recovery for an economy still growing faster than the other advanced countries as the year advances.

Why has it taken the Bank so long to notice the obvious? Why are they still so out of line with all the other major Central Banks of the world? This institution got the ERM comprehensively wrong, the banking crisis and great recession hopelessly wrong and now is getting the world slowdown wrong.