

Why is the Bank of England standing aside from global action to stimulate economies?

This year many Central Banks and some governments have been taking action to prevent a world recession later this year or next. Recognising the sharp downturn in the worldwide car industry, the lower levels of investment confidence and the general manufacturing slowdown, they have been keen to take action to stop it spreading into the consumer and service sector areas that represent the largest part of a modern economy.

Many Central Banks have cut interest rates. The Fed, despite a much faster pace of US growth than EU growth, has reduced rates twice, back to 1.75-2%. The Bank of Australia has cut rates from 12.5% to 1%, and the New Zealand Central Bank from 1.75% to 1%. India has reduced from 6.5% to 5.4%, Turkey from 24% to 16.5% and Brazil down to 5.5%.

The European Central Bank already has a zero interest rate, so they have now resumed money creation at a pace of Euro 20 billion a month, to buy up more bonds. The Japanese authorities are also buying in more bonds and aiming to keep their ten year rate of interest at zero, with negative shorter rates. The People's Bank of China has relaxed the amount of money commercial banks need to deposit with it., to encourage them to lend more. These actions are likely to prevent a general global recession.

Meanwhile the Bank of England has taken no such action. This is surprising as the UK car industry is suffering from the same problems as the rest of the world motor industry, and there has been a manufacturing slowdown in the UK although not as pronounced as Germany. UK growth is well below US growth.

It is true that the new government is embarking on some fiscal reflation but on nothing like the scale of the US. There was no Bank of England response under the previous Chancellor who announced a progressive fiscal squeeze. It would be good to hear from the Bank more about this global trend and why they think the UK should not be part of this general move to keep growth going.