

# Schroders Quickview



**UK rates are cut to 1.5%**  
**8 January 2009**



**David Scammell**  
**Head of UK Interest Rate Strategies**

- **We believe interest rates should be cut to zero (or near zero)**
- **The key now is the extent to which this policy stimulus feeds through into the economy**
- **The government has also committed to further public spending. Other means of policy are being considered.**

It is no surprise that the Bank of England has cut UK interest rates again – this time by 0.5%.

The UK economic outlook has deteriorated dramatically since last summer. Confidence in both the consumer and business sectors has clearly worsened and the labour market has weakened substantially. We are beginning to see major deleveraging pressure in the household sector. Given that the problems in the banking sector and tighter credit conditions seem likely to persist for the foreseeable future, the risks to growth remain firmly to the downside.

Moreover, this weak growth environment is being accompanied by heavy falls in housing and commodity prices and aggressive discounting by retailers. This raises the prospect of sharp falls in the near-term in headline inflation numbers – both the CPI and RPI measures will likely turn negative in upcoming months – and the possibility that we may be facing a notable undershoot of the medium-term inflation target.

Such an environment demands a firm and timely response from policymakers. We applaud the decision of the Bank to cut rates today and strongly support the notion of a zero (or near zero) interest rate policy. In this respect, we anticipate a further cut in February. At the same time, other action is also required to support the system. This has been recognised by the government, who has committed itself to raising the level of public spending, whilst allowing the currency to fall sharply.

The key now is the extent to which this policy stimulus feeds through into the system. The issue is not so much the price of credit, but rather the availability of credit. If the banking sector is unable, or unwilling, to provide companies with adequate and timely working capital, the government needs to assist the process. The possibility of further measures designed to stimulate business lending would seem logical and we must expect any micro-level initiatives to be supplemented by a programme of quantitative easing. This may include an underfunding of borrowing requirements – in other words, put a limit on gilt issuance – buy back selected debt and/or print money.

Sounds easy. And who would pay for it all.....the taxpayer!

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