

8th January 2009

Threadneedle reaction to today's Base Rate cut

Sam Hill, Fixed Income Fund Manager at Threadneedle, comments:

“A cut of just fifty basis points suggests the Monetary Policy Committee's 'Sat Nav' may not be programmed to destination 'zero percent interest rates' and even if it is, they clearly haven't selected the fastest route option.

“Job losses and business failures are now occurring on a scale that would have validated serious preparation for zero percent interest rates and more radical policy options. It is disappointing for the economic outlook that the MPC haven't been as bold as they were in November and December with today's interest rate decision.

“We should be prepared to hear policy makers finding themselves having to catch up with central bankers in America who already have made it clear that there is a range of tools available to stimulate the economy if interest rates at zero percent doesn't prove to be a sufficient impulse. Some commentators have highlighted the risks involved in pursuing so called 'quantitative easing' policies that essentially amount to printing money and for which there is little relevant precedent; actually the greater risk would be that Treasury and Bank of England officials get to a stage where inflation turns negative and they are not in a position to respond promptly to prevent a more pernicious deflationary spiral.”

- ENDS -

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