



Surprise cut in base rate should boost confidence

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The Forum of Private Business (FPB) has welcomed the Bank of England's decision to cut interest rates from 5 percent to 4.5 percent. The FPB believes that slashing the cost of borrowing will significantly boost the confidence of small businesses, such as Buy to Let Landlords.

It was widely predicted that the Bank of England's Monetary Policy Committee (MPC) would cut the base rate this month, but the announcement, made a day ahead of schedule was a signal of the seriousness of the situation.

"Cutting interest rates will have been a difficult decision to make, but the FPB believes it is the correct one," said the FPB's Director of Finance, Nick Palin.

"With many analysts predicting that the UK is already in a recession, or very close to one, this decision should boost the market and hopefully will inject some confidence in it."

The surprise announcement to cut the UK's base rate was good news for property owners currently on tracker mortgages, but Neil Young CEO, Young Group, questions whether the benefit will be widespread.

Young said: "In recent months, the MPC has been engaged in a delicate balancing act. On the one hand, stagnating financial markets prompted calls for a rate reduction; on the other, inflationary pressure was in danger of racing out of reach of the Government's 2.0 percent target. The MPC steadfastly held to its inflationary-led remit and since April has kept the base rate at 5.0 percent.

"Conditions in the wider economy have changed markedly since April when the 5.0 percent rate was set. The economy is now at a stage whereby such a rate cut can be made without jeopardising the Government's inflation target. The current general economic slowdown will cool inflation.

"Historically, the MPC has made small, 25 basis point rate adjustments, so today's 50 basis point reduction, coupled with the £50billion bank rescue package is an effort to jolt the economy.

"Whether this dramatic 0.50 percent reduction in base rate will be reflected in lenders' standard variable rates remains to be seen. But for the millions of property owners on tracker mortgages who will see immediate benefits, this has been just the good news they've been waiting for."

The 50 basis point reduction in the interest rate, would shave £800 a year off the mortgage repayments of an average priced UK property.

Simon Rubinsohn, RICS chief economist said: "The dramatic response from the authorities is an appropriate response to the chaos in financial markets over the past few weeks and the global economy's slide into recession.

"This should help to start the process of rebuilding confidence but we suspect that more action will be necessary over the coming months. Specifically in the UK we see base rates dropping to 3.5 percent by the middle of next year. Even allowing for this, at least two quarters of negative growth are likely and unemployment could climb from 1.7 to more than 2 million.

"On the back of this, house prices are likely to continue slipping but homeowners should get some respite in the form of lower borrowing costs."