

BOE RAISES RATE BY MOST SINCE 1995, WARNS OF PAIN

Relevant for: International Relations | Topic: Effect of policies and politics of developed & developing countries on India's interests

In a bid to tame soaring inflation, the Monetary Policy Committee (MPC) of the Bank of England (BoE) on Thursday voted 8-1 to raise the U.K.'s bank rate by half a percentage point to 1.75%, marking the biggest interest rate increase since 1995.

The U.K. economy is projected to go into recession from the fourth quarter (Q4) of 2022, with GDP set to shrink in five consecutive quarters, the BoE warned. Inflation, as measured by CPI, is seen exceeding 13.4% in Q4, and remaining high through most of 2023, before falling to the 2% target level in 2024.

This is higher than the BoE's May inflation forecast, as inflationary pressures in the U.K. and Europe have risen since May.

"That largely reflects a near doubling in wholesale gas prices since May, owing to Russia's restriction of gas supplies to Europe and the risk of further curbs," the BoE said in a statement, adding that inflationary pressures are expected to dissipate eventually, with global commodity prices expected to rise no further.

"The uncertainty around the outlook is exceptionally high, especially for energy prices," BoE Governor Andrew Bailey said.

The BoE, which has a 2% inflation target, reiterated that the "MPC's remit is clear that the inflation target applies at all times".

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