Interest rates on hold as Bank says recovery ‘unsustainable’

No rise until after 2015 general election  ○  UK economy still short of momentum

Britain’s ultra-low interest rates will remain in force until after next year’s general election, the governor of the Bank of England signalled yesterday as he warned that economic recovery was “neither balanced nor sustainable”.

Mark Carney left the City convinced that borrowing costs would be pegged at 0.5% for the rest of 2014 and beyond after agreeing that interest rates would remain on hold until the fourth quarter of 2015 because of a lack of inflationary pressure in the UK.

The nine-strong monetary policy committee agreed with Carney that the recovery was “unsustainable and unbalanced” and indicated that they were comfortable with the City’s view that interest rates would not rise before the spring of 2015 and then rise gently to 2% by 2017.

A few quarters of above-trend growth driven by household spending are a good start but they aren’t sufficient for a sustained and balanced recovery, the degree of stimulus will need to remain exceptional for some time,” said Carney.

Jessica Thirsk at Capital Economics said that interest rates were unlikely to rise until late 2015 because of a lack of inflationary pressure in the UK.

The Bank’s monetary policy committee expects inflation to hover around the 2% target for the next three years even if interest rates remain at 0.5%. Our forecast is for inflation to be even lower.

Accordingly, we continue to think that interest rates will remain on hold until the fourth quarter of 2015,”

Philip Shaw, economist at Investec, is expecting the first rate rise in the third quarter of next year.

Labour’s shadow chancellor, Ed Balls, agreed with Carney that the recovery was “unsustainable and unbalanced” and said it was up to the government to do more to address the issue.

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He said there were also mounting risks to the global economy posed by problems in emerging market economies.

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The shocker came in the form of a statement from Carney in which he made clear that there was a likely risk to life.

Hundred-mile-an-hour winds buffeted Wales yesterday, leaving more than 160,000 people without power supplies, and caused chaos on the road and rail networks in north-west England.

A high of 108mph was recorded in Aberdaron, as the Met Office issued a rare warning for Wales and north-west England, indicating people should take action because the winds were so strong that there was a likely risk to life.

As more weather-related misery overwhelmed the country on the back of the devastating flooding, a Met Office forecaster, Iain Waite, said: “Red warnings are a very rare thing for us to issue. We only issue them when we do think there is a need to take action to preserve life.”

He said the last such warning was issued due to snow in January last year.

Waite added the winds were expected to die down in England and Wales overnight on Wednesday and during the day on Thursday – but he went on to warn that there would be fresh problems in the week on.

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