

# Bank of England announces record rate cut in windfall for financial markets

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The Bank of England (BOE) announced a massive stimulus program on Thursday in response to the negative impact of the referendum vote to leave the European Union on the British economy. The central bank slashed its benchmark interest rate to 0.25 percent, the lowest level in the bank's 322-year history.

The rate cut, together with two other measures announced by the bank Thursday—a multi-billion-pound revival of the bank's money-printing “quantitative easing” program and a new plan to extend virtually free credit to the major banks—will pump some 170 billion more pounds (\$223 billion) into the UK's financial markets.

Justified as measures to encourage bank lending and expanded investment and job-creation, the new handouts to the banks and corporations will do nothing of the sort. As the multi-trillion-dollar state subsidies to the banks in the aftermath of the 2008 financial crash have already showed, the result is a further expansion of financial speculation and parasitism alongside a further growth of social inequality and poverty.

The central bank cut its forecast for UK economic growth in 2017 to 0.8 percent from its previous forecast of 2.3 percent, its biggest ever downgrade between quarterly projections. Officials made clear the slowdown would not be brief, saying they expected the British economy to be 2.5 percent smaller in three years than they had projected before the referendum.

“The outlook for growth in the short-to-medium terms has weakened markedly,” the central bank said. It forecast a fall in imports into the UK from the rest of the world in 2017 and 2018.

Unemployment and inflation will rise, the bank said, and real income growth will slow while house prices decline. Warning that economic growth will fall to close to zero over the last six months of this year, the

bank's quarterly Inflation Report declared, “Following the United Kingdom's vote to leave the European Union, the exchange rate has fallen and the outlook for growth in the short- to medium-term has weakened markedly.”

In response to the BOE announcement, the pound fell 1.1 percent against the dollar and UK government bond yields hit new lows.

The British and European financial markets responded to this dismal news with a sharp rise in stock prices. Britain's FTSE 100 index shot up 1.59 percent and the Euro Stoxx 50 index rose 0.73 percent, as bankers, hedge fund operators and corporate CEOs rubbed their hands in anticipation of a new upsurge in profits and bonuses on the basis of a flood of virtually free money from the BOE.

The grim projections of economic growth reported by BOE Governor Mark Carney are based not only on the impact of the Brexit vote. That unanticipated development only intensified processes of stagnation and mounting crisis already clearly evident in Britain and internationally. Just last week the US, the euro zone and Japan released economic data showing a further slowdown in growth from an already anemic level.

Second-quarter gross domestic product growth in the US, at 1.2 percent, was far below the expected increase of 2.5 percent and barely above the miserable figure of 0.8 percent in the first quarter. Most significant was the 9.7 percent decline in business investment, the third straight quarterly fall. The euro zone economy barely budged, and France saw no growth at all.

The decline in US business investment is indicative of the character of the so-called “recovery” in the American and world economy from the Great Recession that followed the 2008 Wall Street

meltdown. On the basis of central bank quantitative easing, record low interest rates and trillions in government bank bailouts, together with a brutal assault on wages, jobs and working class living standards, there has been a further explosion of the types of speculation and outright criminality that triggered the crash in the first place.

Meanwhile, the banks and corporations have largely refused to invest in production and infrastructure, using their government-provided windfalls instead for such parasitic activities as stock buybacks, dividend rises and mergers and acquisitions.

The new moves by the BOE will only accelerate these processes. The scope of the measures announced is extraordinary. In addition to buying 60 billion pounds of government bonds, the central bank will purchase 10 billion pounds of corporate debt.

To make sure that the banks' profits are not damaged by the reduction in interest rates, the BOE will offer them four-year loans at rates close to the 0.25 benchmark in a so-called "term funding scheme" worth up to \$100 billion.

Carney and the bank's Monetary Policy Committee made clear, moreover, that these steps were just the beginning. They said they expected to cut the bank rate again later in the year to as low as 0.1 percent. Carney reassured reporters that the BOE would take "whatever measures are necessary" to bail out the financial system.

The financial markets fully expect and are demanding even more extreme measures. The *Wall Street Journal* quoted ING economist James Knightley as saying of the BOE's announcement, "We see it as a stop-gap solution to show authorities are doing something ahead of more substantial fiscal support [i.e., corporate tax cuts] later in the year."



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