Bank of England lifts rates and forecasts "prolonged" recession

Nick Beams
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The Bank of England (BoE) yesterday lifted its base interest rate by 0.75 percentage points as part of the deepening class war being waged by the major central banks against the working class.

The decision, carried by a 7?2 majority on its Monetary Policy Committee (MPC), came in the wake of the decision by the US Federal Reserve to again hike its base rate by 75 basis points for the fourth time in a row on Wednesday, targeting what it continually refers as the "tight" labour market.

The BoE rate increase was the largest in 30 years, taking the base rate to 3 percent, the highest point since 2008.

In its economic outlook, the bank forecast a significant contraction for the UK economy as inflation continues to surge. If the BoE interest rate remains at its present level of 3 percent, it forecast a contraction in the economy over the next five quarters because of rising energy prices and mortgage costs.

But financial markets are at variance with this scenario. They expect that the BoE's rate will rise to 5.25 percent. According to the MPC projections, if that were to take place there would be eight quarters of contraction—the longest UK recession since World War II.

BoE governor Andrew Bailey took the somewhat unusual step of directly countering the financial market forecasts at his press conference on the decision.

"We can make no promises about future interest rates," he said. "But based on where we stand today, we think [rates] will have to go up less than currently priced into financial markets. That is important because, for instance, it means that the rates on new fixed-term mortgages should not need to rise as they have done," he said.

The markets, which demonstrated their power in determining policy during the UK financial crisis of September?October, leading to the ousting of Prime Minister Liz Truss, quickly delivered their verdict on this assessment.

The pound fell by 2 cents against the US dollar, which rose following the clear message from Fed chair Jerome Powell, that US interest rate hikes would continue in contrast to expectations in some quarters that the Fed was preparing to ease back.

The fall in sterling was accompanied by a sell-off in UK bond markets. The yield on the 10-year bond rose from 3.4 percent to 3.5 percent (yields rise as prices fall) and shorter-term bond also dropped in price.

Commenting on Bailey's statement, Jordan Rochester, a foreign exchange strategist at the Japanese financial giant, Nomura, told the *Wall Street Journal*: "The big surprise for markets today is Bailey saying that market pricing for the terminal rate is too high. That's helped accelerate sterling lower."

One reason for Bailey's contradiction of market predictions is the extent of the economic devastation to which they point.

According to BoE calculations, if its interest rate rose to 5.25 percent, the economy would contract by 1.5 percent next year followed by a further contraction of 1 percent in 2024, with the jobless rate rising to 6.5 percent in what would be the longest UK recession since records began in the 1920s.

But whatever the eventual path of interest rates, the projections by the MPC make clear the extent of the recessionary forces. It warned that Britain faced "recession for a prolonged period" and the economy was unlikely to start growing again until at least the middle of 2024.

More interest rate increases "may be required for a sustainable return of inflation to target [2 percent]," he said, but with a "peak lower than priced into financial markets," it said.

However, as indicated by the bond and currency movements yesterday, there is considerable scepticism over this assessment in financial circles.

"Our forecast is that inflation will be stickier than the Bank expects and that activity and the labour markets will be a little more resilient. That's why we think the MPC will change its tune and raise interest rates to a peak of 5 percent," said Capital Economics senior UK economist Ruth Gregory.

This reference to the labour markets, and by implication wages, is also the central focus of the BoE in determining its policies.

It said the risks around its set of "inflation projections" were "judged to be skewed to the upside in the medium term… in part reflecting the possibility of more persistence in wage and price setting."

Spelling out that this is the central issue, it said: "The MPC's remit is clear that the inflation target applies at all times, reflecting of price stability in the UK monetary policy framework."

And it left no doubt that if financial markets considered the rate hikes were not enough, then they would be obeyed. The MPC said further increases in the bank rate may be required, although the peak would be lower than market estimates.

"There are, however, considerable uncertainties around the outlook," it continued. "The Committee continues to judge that, if the outlook suggests more persistent inflationary pressures, it will act forcefully as necessary."

The BoE decision is the latest shot in the global war being carried out by central banks—a war which is being fought not against inflation but with the objective of crushing the struggles of the working class for wage increases to compensate for the highest inflation in four decades.

The last week has seen interest rate hikes by the European Central Bank (ECB), the US Fed and the Reserve Bank of Australia, among others, and now the BoE, all of which have referred to "tight" labour markets and wages.

The inflationary surge is not the result of wage rises—real wages have been cut for more than a decade around the world.

It is the outcome of the refusal of capitalist governments to eliminate the COVID virus, leading to supply chain constrictions, the trillions of dollars pumped into the financial system since 2008, the inflationary impact of the US-NATO war against Russia in Ukraine and the profit gouging and speculation by giant global energy and food companies.

Interest rate rises, inducing a recession, are the key weapon of the financial arm of the capitalist state, the central banks, in waging this war.

This strategy has been underscored by ECB president Christine Lagarde. In comments on Thursday evening during a visit to Latvia, she indicated a mild recession in the euro zone would not be sufficient on its own to bring down inflation and would not deter the bank from increasing rates.

As with Powell's comments at Wednesday's press conference, Lagarde's remarks were aimed at scotching any belief there would be a let up in interest rate hikes even if they result in recession and rising unemployment. In fact, that is their aim.