



D1: Interest Rates and Monetary Policy

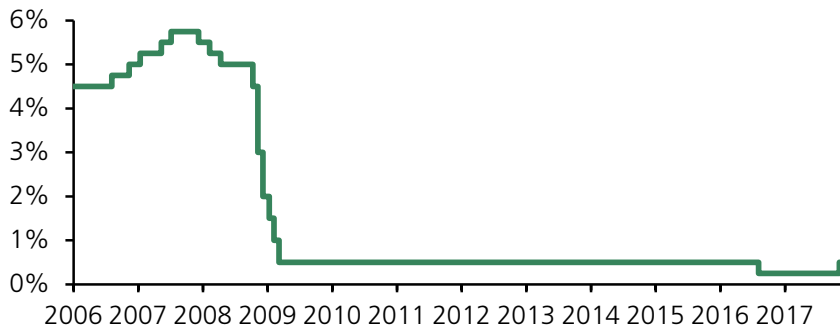
Central banks around the world cut interest rates sharply during the 2007-2009 financial crisis. Rates have stayed at historic lows since then, close to or below 0% in most developed economies.

UK (Bank of England)

The Bank of England's Monetary Policy Committee (MPC) voted 9-0 to leave interest rates unchanged at its December policy meeting. This follows a 7-2 vote in November to raise interest rates from 0.25% to 0.5% - the first interest rate increase in more than a decade.

The MPC left interest rates unchanged at 0.5% following its 14 Dec. [meeting](#).

UK official interest rate



The fall in the value of the pound since early 2016 and, particularly, following the Brexit vote in June 2016, has pushed up inflation to around 3% – above the MPC's 2% target. Despite relatively subdued economic growth in recent quarters, the MPC believes that there is little spare capacity in the economy. This means that to bring inflation down to its target, the MPC believed that interest rates needed to be raised at its November meeting.

The MPC's **quantitative easing** (QE) programme, where the Bank creates new money to buy financial assets, remains active and unchanged. QE now totals £445 billion of assets, mostly government bonds.

Eurozone (European Central Bank)

At its December 2017 [policy meeting](#), the European Central Bank (ECB) left its main interest rate unchanged at 0.0%. It also confirmed it would reduce its quantitative easing programme – whereby it purchases assets (mostly government bonds of Eurozone countries) in an attempt to stimulate the economy – from €60bn per month currently to €30bn beginning in January until September 2018, or longer "if necessary".

United States (Federal Reserve)

At its two-day policy meeting ending on 13 December, the US Federal Reserve [raised interest rates](#) by 0.25%-points to 1.25-1.50%. Rates have been increased gradually from 0-0.25% since December 2015 against a backdrop of jobs growth and steady economic growth.

Subject Specialist

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Updates – next monetary policy meetings

UK ([8 Feb](#))
ECB ([25 Jan](#))
US ([30-31 Jan](#))