



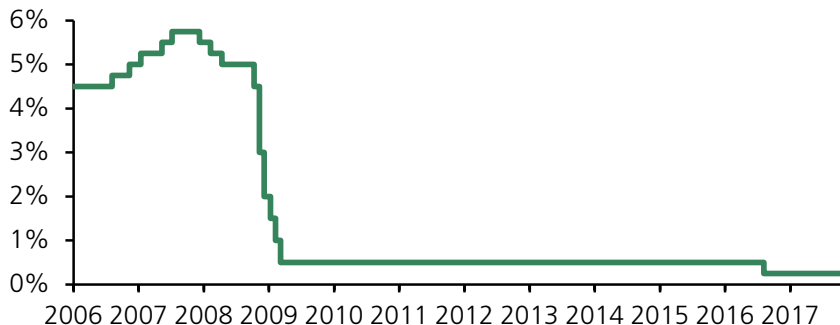
D1: Interest Rates and Monetary Policy

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) raised interest rates for the first time in over a decade at its November policy meeting. The MPC voted by a majority of 7-2 to **increase its interest rate by 0.25%-points to 0.5%**.

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 3.0% – 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 believes that interest rates needed to be raised.

The key factor behind this decision is the MPC's downgrading of what it [believes](#) the growth rate the UK economy can comfortably achieve without generating inflation is, to 1.5% per year.

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 October 2017 [policy meeting](#), the European Central Bank (ECB) left its main interest rate unchanged at 0.0%. It also reduced the size of 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 1 November, the US Federal Reserve [left interest rates unchanged](#) at 1.0-1.25%. Rates have been increased gradually from 0-0.25% since December 2015 against a backdrop of jobs growth and steady economic growth.

The MPC raised interest rates by 0.25%-points to 0.5% at its 2 Nov. [meeting](#).

For more on the rate rise by the Bank of England, see the Library's blog post: [Why have interest rates been raised? And what's the impact?](#)

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Updates – next monetary policy meetings

UK ([14 Dec](#))
ECB ([14 Dec](#))
US ([12-13 Dec](#))