

Press Release

For immediate release
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'No change' in rates good news for business, says IoD

Today's Bank of England decision to keep interest rates on hold is good news for business, the Institute of Directors (IoD) claimed. With business facing uncertainty on a number of fronts the last thing it needs at the moment is a further hike in interest rates, the IoD said.

Graeme Leach, Chief Economist at the Institute of Directors said:

"Now is not the time to increase the burden on businesses by a hike in interest rates. We are pleased to see that the Bank of England has decided to hold off another rate rise this month.

"For some time the IoD has forecast that interest rates would rise to 4.75% in 2004. This still remains our view. We have also forecast that interest rates will peak at 5% in early 2005 and we see no reason to change that forecast in light of today's announcement."

Although the IoD is relatively optimistic on the interest rate outlook, it remains convinced that three factors will force the Bank of England to tighten the screws further on the economy, despite signs of weakness in the housing market and the manufacturing sector:

* Concern that the UK economy may have reached a turning point for inflation, due to higher oil prices, a tight labour market and increased inflationary pressure due to actual output rising above potential output.

* The total household wealth to income ratio has risen to record levels. As a result there is a risk of an acceleration in spending and a fall in the savings ratio.

* Official statistics may be understating the actual volume of government output and therefore GDP growth.