

Bank of England preview: Nightmare on Threadneedle Street as MPC poised for big decision on rates

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s the [Bank of England](#) about to put [interest rates](#) up?

Its Monetary Policy Committee will decide at noon tomorrow, but the best guess is that it will hold them at 0.1%. The pressure on it is rising, especially after today's surging [inflation](#) figures. Inflation is running at 5.1%. That is more than twice 2% the Bank's target rate. Many in the [City](#) think it has got this all wrong.

But it seems fair to say that the policy makers at Threadneedle Street have a got a tricky problem.

A lot of the inflation issues are global. Would putting rates up make a ship of goods arriving from China any cheaper? It is hard to see how.

What is the Bank waiting for?

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It is trying to give the UK economy as much chance as possible to get through Covid before it puts up borrowing costs. It thinks that even a slight move upwards would send some firms, since they may in truth be borrowing to stay alive at this point, out of business.

Some economists say just putting rates up a bit, to 0.25%, wouldn't hurt the economy unduly. Moreover, putting rates up would at least mean the Bank has something to cut if the economy runs into real trouble next year.

What does the City say?

Some are downright cross. Neil Wilson at markets.com said: "If you were angry the Bank of England didn't raise interest rates last month, you'll be absolutely livid they don't do it again tomorrow."

Nomura said in a note to clients: "The market is pricing in roughly a 50-50 chance of a 15bp hike tomorrow following today's figures and yesterday's stronger labour market data. We continue to think the Bank will raise rates tomorrow to prepare the ground for more significant tightening next year."

What is rising in price?

Nearly everything, but a few notables: Second hand cars 27%. Books 5.5%. Cinemas 14%. Clothes 3.8%. Wine 3.3%.

How worried is the Bank about Omicron?

The uncertainty about how transmissible it is seems to be the main worry.

Capital Economics says: "There is a strong incentive for the MPC to keep rates at 0.10% next week and wait to see how the land lies at the next meeting on 3rd February 2022. What's more, by saying in November that it was prepared to wait for more information on the labour market, the MPC has shown it has a

natural tendency to be cautious.”

The IMF says the Bank is too cautious, that it should be wary of “inaction bias”.

What will rates go to next year?

Until Omicron, the City thought they would be 1% by the end of the year. Capital Economics says investors “have gone too far” in pricing in such a rate rise.