

Rates fall to a record low

Welcome to the latest 'hot topic', our update on developments in the world of financial services.

UK interest rates reached their lowest-ever level at the Monetary Policy Committee's (MPC's) February meeting of 2009. The MPC cut rates by 0.5 percentage points to 1.0% meaning base rate is now at the lowest level since the Bank of England was established in 1694. In its statement, the MPC cited the global economic downturn – and the deteriorating outlook for the UK in particular – as rationale for the cut, which took place against a background of deteriorating economic news, falling house prices, and increasingly frequent news of redundancies and corporate collapses.

The MPC highlighted “the need for further measures to increase the flow of lending to the non-financial sector”; however, it is questionable whether lower rates will revive lending as banks and building societies focus on strengthening their balance sheets. For borrowers, the cut might turn out to be relatively meaningless; many banks and building societies are likely to decide not to pass on the cut in full as they focus on protecting their profits.

However, lower interest rates are likely to provide a new blow for savers, who have already seen the rates on their savings accounts plummet over recent months. Many savers are retired who rely on interest to top up their pension income. Indeed many Bank deposit rates are now well below 1%. The current level of interest rates has left many savers searching for secure alternative ways of generating a reasonable level of income.

To discuss your options to improve your interest on your capital contact us for your free appraisal.

For more information on this topic, please contact Cheltenham Independent Financial Advisers Limited on 01242 269656 or email us at info@cheltenhamifa.co.uk. One of our advisers will be happy to assist you.