Think Money welcomes base rate cut

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Press Release Author: Melanie Taylor

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Press Release Summary: Despite the economic gloom, Wednesday's base rate cut could stimulate the economy – and it does hint that the Monetary Policy Committee sees the threat of inflation as lessening, says financial solutions provider Think Money.

Press Release Body: Responding to the half-point cut to the Bank of England's base rate, financial solutions company **Think Money** welcomed its already noticeable impact, and pointed to the implied likelihood of future cuts.

"There's no question that we're facing extraordinary issues today, both globally and nationally," a **Think Money** spokesperson commented. "As a company, we were pleased to see the Bank of England taking this step – not just dropping the base rate, but dropping it by a substantial amount.

"Furthermore, we're delighted to see major mortgage providers passing that reduction on to consumers. After so many months of negative news, this could make a big difference to many homeowners' financial circumstances, as their variable rate mortgages drop from 7% to 6.5%."

Anyone with a tracker mortgage, meanwhile, is sure to enjoy lower payments at once: The Times predicts immediate benefits for around 4 million people paying home loans that track the Bank's base rate. 'Those with a £150,000 mortgage', it reports, 'will see their interest-only repayments fall by £63 a month'.

"The same goes for other kinds of credit," the spokesperson continued, "from secured loans to credit cards: people with tracker deals will certainly profit from the cut, and borrowers with SVR deals will be following their lenders' reactions closely."

New fixed-rate loans could also drop in price. "Now that the cost of credit has come down, lenders will be able to pass the savings on, giving their customers a better deal without placing their own profits in jeopardy – something which could have a profound impact on their stability at a time like this.

"Looking beyond the actual cut," the spokesperson stressed, "it's equally important to consider the implications – not just what the deal means, but what it says about the Bank of England's assessment of our economy. First, the cut reveals how seriously it is taking today's financial troubles. Second, it implies that the Bank is feeling more comfortable about inflation."

As stated in the Bank's news release about the rate cut: 'The recent intensification of the financial crisis has augmented the downside risks to growth and thus has diminished further the upside risks to price stability'.

"In other words, today's financial crisis has become more of a threat to the nation's GDP – but on the plus side, slowing growth does tend to slow inflation too. The Bank may well have liked to postpone the base rate cut until inflation came down closer to the 2% target, but given the choice between letting the economy deteriorate and losing some ground in the fight against inflation, it chose the latter."

As for the months ahead: "The latest BRC-Nielsen Shop Price Index (SPI) for the UK reveals that annual shop price inflation shrank to 3.6% in September, down from 3.8% in August. It's encouraging to see inflation on the way down, particularly as it gives the MPC more leeway when it comes to future base rate decisions. Various influential bodies are calling for the Bank to make further cuts to the base rate – and there's reason to hope it'll be able to do that."

Web Site: http://www.thinkmoney.com/loans/

**Contact Details: Pennington House,
Carolina Way,
South Langworthy Road,
Salford Quays
M50 2ZY
UK**

melanie.taylor@thinkmoney.com