[The Bank of England tightens money further]

Over a year ago the Bank of England decided to tighten money policy considerably. It removed all the special credit lines for commercial banks designed to encourage lending. It issued stricter guidance over car loans, mortgages and consumer credit. It went on to raise interest rates from 0.25% to 0.5%. It achieved its aim, with money growth halving to just 3.5% from the 7% level in 2016. The car market duly fell sharply, and the top end of the property market was damaged, primarily owing to tax rises, but assisted by the credit tightening. Money and credit still look too tight to provide the backdrop for decent expansion.

Yesterday they decided to go further, by increasing interest rates to 0.75% and introducing the concept of an Equilibrium rate of interest considerably higher than today's rate to guide markets towards expecting more monetary tightening. It is difficult to see why from the numbers being reported. Growth has slowed. There is no surge in inflationary pressures. Banks are better capitalised. On the Bank's own forecasts the UK economy grows more slowly than it used to with no inflationary problems ahead. They themselves concede that if they kept interest rates at the new level of 0.75% instead of raising them further prior to 2020, output would be higher, unemployment lower, and inflation only 0.2% higher than on their preferred course of slow growth and more tightening by that date.

The Equilibrium rate is an unhelpful abstraction or distraction from the day job of keeping inflation under control whilst promoting better growth. The Bank accepts that the so called Equilibrium rate "cannot be directly observed" – a polite way of saying it does not in any normal sense exist. They accept that "there is a wide degree of uncertainty around the estimated level" of the real equilibrium rate. By choosing a range of 0% to 1% real they are trying to get markets to accept more tightening, but then they back off a bit by leaving the timescale imprecise.

Inflation is being kept down by the open nature of the UK economy. A large inward migration is keeping wages down, whilst massive imports of goods and services are keeping general prices down. The Bank forecasts those features to continue. They are aided in this by internet competition, and by the emergence of big discounters in a range of markets. The Governor himself gave a good lecture some time ago which I commented on effectively debunking the main part of the MPC's analysis. Their theory is that they can measure capacity, and that we are now close to capacity. They therefore expect inflation to rise as we hit capacity. As the Governor pointed out, in an open global economy like the UK you can always import anything you need which domestic output cannot provide. So why is the MPC still preying in aid the idea that we will soon have exceeded capacity, and therefore need to be reined in? How do you measure capacity reliably these days, when the internet and changing consumer fashions and transforming what we need and the supply to meet demand? The Bank is doing us no favours by being too pessimistic about the outlook and then taking action to ensure a disappointing outcome.