

## DO CENTRAL BANKS HAVE THE POWER TO TAME INFLATION?

Who'd be a central banker today? Once, they were the masters of the universe, bravely slaying the dragon of inflation and slashing interest rates to save the economy in times of peril. Today, they seem powerless to control inflation. Fearful of raising interest rates too far, they issue hollow calls for wage restraint.

Just 12 months ago, the Bank of England was predicting inflation would be less than 2.5% today. In fact, it has just hit 9%, and the Bank expects it to exceed 10% by the year-end.

Of course, the war in Ukraine, soaring energy and food prices, supply chain disruption and the Covid lockdowns in China were

all – to a greater or lesser extent – not easily predictable.

### TRANSITORY PRESSURE?

But what really puzzles us is their forecast that inflation will fall back to the official 2% target by early 2024.

There are really only two ways for that target to be met. Either the Bank intends to raise rates high enough to plunge the economy into recession, or it is desperately hoping energy and food prices stabilise, supply chains are unblocked, deglobalisation is reversed and, most importantly, wages don't rise.

Back in the real world, average earnings (as measured by the Bank itself) are already rising at 4-5%.

The good news is that unemployment is now just 3.7%, the lowest since 1974, and job vacancies are at all-time highs.

The bad news is that such a tight labour market points to rising wages. If earnings rise to offset the cost-of-living crisis, then inflation will become embedded in the system.

Unless the Bank is willing (and

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allowed) to raise rates dramatically, we struggle to see how inflation falls back to target by 2024. But will central banks and governments prescribe such harsh medicine? We think not.

Either official interest rate forecasts are wrong, or we are heading for a recession, though we could, of course, get stagflation – low growth and inflation. We think it's more likely that inflation does not fall back to target any time soon. But, if it turns out to be a recession, we are prepared, with our portfolios' credit protections likely to be particularly effective.

We expect central banks to conclude that inflation may be the lesser of these two evils. But investors should be in no doubt about the threat it poses. ●

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### KEY INDICATORS

UK GDP QoQ	+0.8%	(31 March 2022)
UK GDP YoY	+8.7%	(31 March 2022)
Current inflation rate (RPI/CPI)	+9.0% / +13.1%	(30 April 2022)
Wage inflation YoY	+7.0%	(31 March 2022)
Unemployment rate	3.7%	(31 March 2022)

Sources: Bank of England, Office of National Statistics. Charity Finance went to print before the May inflation data was published

The rates below are the highest published and can be used to negotiate with other banks which may match or better them if asked. Please note that the creditworthiness of an institution is of critical importance and that credit rating is just one of a number of factors to take into consideration.

Best rates at 10.06.22 shown gross	Account	Notice/term	Deposit	Gross	Int paid	Best rates at 10.06.22 shown gross	Account	Notice/term	Deposit	Gross	Int paid
<b>NO NOTICE ACCOUNTS £1</b>						<b>NOTICE ACCOUNTS £50K</b>					
Skipton BS	Community Saver Issue 9	Instant	£1	0.80%	Y	United Trust Bank	Charity 200 Day	200 Day	£5,000	1.55%	Y
Bath BS	Charity	None	£1	0.69%	Y	United Trust Bank	Charity 100 Day Issue 1	100 Day	£5,000	1.30%	Y
Monmouthshire BS	Community Saver - Issue 2	Instant	£1	0.50%	Y	Cambridge & Counties Bank	Business, Trust and Charity 13	95 Day	£10,000	1.30%	Y
Furness BS	Everyday Saver	Instant	£1	0.40%	Y	Close Brothers Savings	95 Day SME Notice Account (4)	95 Day	£25,000	1.30%	6M
Stafford Railway BS	Pullman	Instant	£1	0.40%	Y	Virgin Money	120 Day Business Notice Account	120 Day	£1	1.16%	M
<b>NO NOTICE ACCOUNTS £50k</b>						<b>CHEQUE ACCOUNTS</b>					
Skipton BS	Community Saver Issue 9	Instant	£1	0.80%	Y	CAF Bank	CAF Cash Account	Instant	£1,000	0.05%	Q
Skipton BS	Community Saver Issue 9	Instant	£1	0.55%	Y	Santander	Corporate Current Account	Instant	£1	0.00%	M
Loughborough BS	Instant Access Deposit	Instant	£25,000	0.55%	Y	Virgin Money	Business Charity Choice Account	Instant	£1	0.00%	M
Charity Bank	Ethical Easy Access	None	£10,000	0.51%	Q	Bank of Scotland	Business Current Account	Instant	£1	0.00%	M
Monmouthshire BS	Community Saver - Issue 2	Instant	£1	0.50%	Y	Cumberland BS	Business Account Option A*	Instant	£1	0.00%	Y
<b>NOTICE ACCOUNTS £1</b>						<b>FIXED RATE ACCOUNTS</b>					
Virgin Money	120 Day Business Notice Account	120 Day	£1	1.16%	M	Cambridge & Counties Bank	Business, Trust and Charity Bond 22	5 Year	£10,000	2.50%	F Y
Virgin Money	95 Day Business Notice Account	95 Day	£1	1.06%	M	Cambridge & Counties Bank	Business, Trust and Charity Bond 22	2 Year	£10,000	2.50%	F Y
Cater Allen Private Bank	Business Notice 35 Account	35 Day	£1	0.90%	M	Union Bank of India (UK) Ltd	Fixed Rate Deposit	5 Year	£1,000	2.40%	F Y
Virgin Money	65 Day Business Notice Account	65 Day	£1	0.90%	M	United Trust Bank	Charity 3 Year Bond	3 Year	£5,000	2.40%	F Y
Virgin Money	30 Day Business Notice Account	30 Day	£1	0.80%	M	Cambridge & Counties Bank	Business, Trust and Charity Bond 11	3 Year	£10,000	2.40%	F Y

A = Provider operated under Islamic finance principles, rate shown is expected profit rate F = Fixed Rate OM = On Maturity \* = Local area only All rates are shown gross variable unless otherwise shown. Methods of opening and operating accounts will vary. Eligibility criteria applies for cheque accounts to qualify for rates shown, rates paid up to a specified level only. All rates and terms subject to change without notice and should be checked before finalising any arrangement. **No liability can be accepted for any direct or consequential loss arising from the use of, or reliance upon, this information. Readers who are not financial professionals should seek expert advice.**

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