

LLOYDS TSB RESPONDS TO BASE RATE DECISION

Commenting on today's decision by the Bank of England Monetary Policy Committee (MPC) to keep interest rates on hold at 4.5 per cent, Trevor Williams, chief economist, Lloyds TSB Financial Markets, said:

“Rising oil prices and the impact of hurricane Katrina must have made for an interesting debate in the MPC this month. However, the decision to keep rates on hold is no real surprise. Last month's decision to cut rates was by no means unanimous, having been decided on a vote of 5-4. The chairman of the committee was one of those who voted not to cut and nothing is likely to have changed his views.

“Oil and hurricanes notwithstanding, developments over the past month show that holding the rate at 4.5 per cent is the most sensible move. Importantly, we've seen the figures for Q2's GDP revised upwards and secondly manufacturing is showing signs of a modest recovery.

“But it is inflation that has probably been the deciding factor, in today's decision, as it has risen beyond the MPC's two per cent target and could rise further in the months ahead. The Bank of England has made clear its view that if the base rate isn't kept at its current level, inflation will stray even further above the target than it is at the moment. For many, that's reason enough to hold.”

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Notes to editors:

- Trevor Williams, chief economist, Lloyds TSB Financial Markets, is available for interview.

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