Appendix 2

INTEREST RATES FORECASTS

The Council's treasury advisor, Capita Asset Services, has provided the following forecast:

Link Asset Services Interest Rate View	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Bank Rate View	0.50%	0.75%	0.75%	1.00%	1.00%	1.00%	1.00%	1.25%	1.25%	1.25%	1.50%	1.50%	1.50%
3 Month LIBID	0.40%	0.70%	0.70%	0.90%	0.90%	0.90%	0.90%	1.20%	1.20%	1.20%	1.40%	1.40%	1.40%
6 Month LIBID	0.50%	0.80%	0.80%	1.00%	1.00%	1.00%	1.10%	1.30%	1.30%	1.40%	1.50%	1.50%	1.50%
12 Month LIBID	0.80%	1.10%	1.10%	1.20%	1.20%	1.20%	1.30%	1.40%	1.40%	1.50%	1.70%	1.70%	1.70%
5yr PWLB Rate	1.90%	2.00%	2.10%	2.10%	2.20%	2.30%	2.30%	2.40%	2.40%	2.50%	2.50%	2.60%	2.60%
10yr PWLB Rate	2.50%	2.50%	2.60%	2.70%	2.70%	2.80%	2.80%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%
25yr PWLB Rate	2.80%	2.90%	3.00%	3.10%	3.20%	3.20%	3.30%	3.30%	3.40%	3.50%	3.50%	3.60%	3.60%
50yr PWLB Rate	2.60%	2.70%	2.80%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%	3.30%	3.30%	3.40%	3.40%

At its November quarterly Inflation Report meeting, the MPC gave forward guidance that they expected to increase Bank Rate only twice more in the next three years to reach 1.0% by 2020. This was a very relaxed rate of increase in Bank Rate in line with previous statements that Bank Rate would only go up very gradually and to a limited extent.

The February quarterly Inflation Report included a marginal improvement in terms of **GDP growth** over the previous quarterly forecasts. Forecasts for GDP growth were upped from 1.6% in 2018 and 1.7% in 2019 and 2020, to 1.8% for all three years. The MPC has therefore taken on board the fact that growth in the UK economy in 2017 was better than had been expected at 1.8% and also that it had been on an upward trend during the second half of the year. In addition, strong world growth and, in particular, strong economic growth in our major export market, the EU, has stimulated UK growth in 2017 and will be a positive influence in 2018.

The forecasts for **inflation** were revised to be still above the inflation target of 2% in three years' time at 2.2%; this was despite the forecasting model being based on including one extra rise in Bank Rate over this period than had been included in the Bank's previous quarterly forecast. The MPC also highlighted a change in their attitude to place more importance on **achieving the 2% target within the 18 - 24 months' time horizon** whereas previously they had been more prepared to look at the three year time horizon. This implies that the MPC are on guard to raise rates "earlier and greater than anticipated".