

There are a plethora of headlines about the UK economy right now, drawing attention to various alarming “highs”.

10 year high: nearest match to current interest rate 5 February 2009 (BoE)

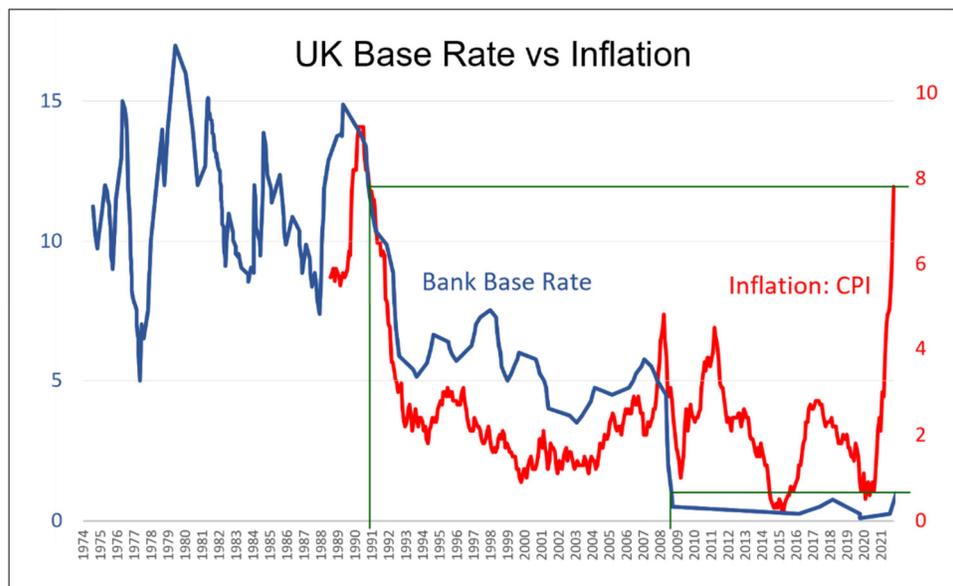
40 year high: nearest match to current inflation rate April 1991 (ONS CPI)

60 year high: business insolvencies in England and Wales (FT<sup>1</sup>).

Caution does need to be exercised in digesting these “highs”. The recent past is an unusual starting point for comparisons. Many current indicators may simply be a catch up of problems present in the economy in 2019.

As credit risk practitioners, we have to operate based on forward looking business assumptions. These drive strategy and provide benchmarks to measure actual vs expected results. Then, as deviations emerge, we go through iterations of assumptions and policy changes.

So, whilst we need to be cognisant of present indicators, is it also worth going back to the long run data?



Inflation vs base rate over time. What conclusions can we reach? Interest rates were a key tool in bringing down inflation from the late 1980s crisis through to 2004. From 2009, this tool has not been used in response to oscillations in inflation.

<sup>1</sup> <https://www.ft.com/content/ec8d97d3-ff39-4c7b-a6a2-ee7fc3234442>

Some commentators believe the current rate is at least 2 percent below where it should be - but the socio-economic consequences of such a rise are beyond palatable. Andy Haldane (past chief economist at the BoE) suggests inflation will remain high for “years rather than months”<sup>2</sup> and the BoE forecasts inflation reducing to about 2% within 2 years<sup>3</sup>.

What other indicators should we be paying attention to in setting assumptions for 2022 and beyond? Is inflation solely dependent on the war in Ukraine and thereby a temporary blip? Is it purely a supply side issue which will resolve over the next 2 years? Have all the additional costs associated with Brexit already been assimilated?

Maybe the biggest danger will turn out to be deflation, driven by longer term factors such as demographics, climate and technology?

No one will call it exactly right. But what are your thoughts?

Feedback on this note is welcome: [consultancy@scoreplus.com](mailto:consultancy@scoreplus.com)

**Helen McNab**  
**ScorePlus Consultant**

Data is sourced from the Bank of England and ONS. Let us know if you would like a copy.

---

<sup>2</sup> <https://www.theguardian.com/business/2022/may/09/high-uk-inflation-could-last-for-years-rather-than-months-warns-economist>

<sup>3</sup> <https://www.bankofengland.co.uk/monetary-policy-report/2022/may-2022>