Economist's Weekly Market View

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Central banks play the waiting game

Last week's US Federal Reserve and Bank of England meetings concluded as expected with no change to rates. For now, despite global growth risks stemming from trade tensions, reflected in a downgrade in the latest OECD macro forecasts, central banks are happy to take a 'wait and see' approach.

Those OECD forecasts saw a downward revision in global and US growth, particularly in 2026. Global growth is now expected at 3% in 2025 and 2026, down from c.3.3% forecast in December for both years. For the US, the OECD has revised down its near-term outlook to 2.2% in 2025 (from 2.4%) and more sharply to 1.6% in 2026 (from 2.1%), a significant slowdown compared to the near 3% rate of growth in recent years. Meanwhile, the Central Bank of Ireland revised slightly lower its Irish outlook but expects growth to remain robust. However, a tariff analysis by the ESRI/Dept of Finance highlighted the potential impact of various scenarios on Ireland, reducing modified domestic demand up to 1.8% and GDP up to 3% compared to the baseline level forecast after four years.

The March meeting of the Open Market Committee (FOMC) saw the Fed leave policy on hold. The target range for the Fed funds rate was maintained at 4.25-4.50%. The decision by the FOMC to leave rates unchanged was unanimous and this was the second consecutive meeting where the Fed did not alter its key interest rate. The Fed reduced rates by 100bps over the course of its final three meetings of 2024. However, it did announce a change to its quantitative tightening (QT) process though. From April, it will slow the pace of QT by reducing the monthly run-off in US Treasury bonds from $25 billion to $5 billion. In his press conference, Chair Powell played down the tweak to QT as a technical adjustment rather than a clear policy signal, but the move provides timely market support amid the current policy uncertainty, including the looming US debt ceiling deadline.

For the Bank of England, it left Bank rate unchanged at 4.50%. The most recent policy change came at the previous meeting in February, when the MPC cut official rates by 25bps. So far, in its current easing cycle, which began in August last year, the BoE has cut by a total of 75bps. Once again, there was no unanimity within the MPC. Eight members voted in favour of keeping rates on hold, with one in favour of a 25bps rate cut. Attention now turns to UK fiscal policy, with Chancellor Reeves due to deliver her Spring Statement on Wednesday (Mar 26th). Amid still-tight monetary policy, the Chancellor has little room to manoeuvre to provide a fiscal boost to the UK economy and may even have to announce further spending cuts to meet her new fiscal rules.

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