Inflationary pressures

When will policy-makers wake up to the reality that has been staring them in the face for so long? Inflation is a significant problem – and is not just a temporary phenomenon.

Quantitative easing (QE) has been a dreadful mistake, which has artificially depressed interest rates, created a bond market bubble and is storing up problems for asset markets in years to come.

Sovereign debt is no longer risk-free. The idea that QE can be unwound if inflationary pressures pick up has been proved a fallacy. These pressures have been rising for many months, growth has been picking up, yet excessively easy monetary policy has been maintained.

The clear conclusion is that the authorities have decided to sacrifice inflation credentials in favour of boosting the banking system. The favoured way of devaluing debts and overcoming the legacy of reckless lending is to create as much inflation as the markets will allow.

This policy is dangerously short-sighted as, once the bubbles burst, the fallout could be catastrophic. In the meantime, however, equity markets may be encouraged by stronger than expected growth and we could even see a repeat of 1986-87, with bond yields rising and equities performing well.

Interestingly, this would be an excellent combination for pension funds, whose deficits may fall as a result. Every cloud has a sliver lining, I suppose!

Dr Ros Altmann, director-general, The Saga Group