

Text of Bank of England press notice of 5 March 2009

Bank of England reduces Bank Rate by 0.5 percentage points to 0.5% and announces £75 billion Asset Purchase Programme

The Bank of England's Monetary Policy Committee today voted to reduce the official Bank Rate paid on commercial bank reserves by 0.5 percentage points to 0.5%, and to undertake a programme of asset purchases of £75 billion financed by the issuance of central bank reserves.

World activity continued to weaken, reflecting both depressed confidence and the persistent problems in international credit markets. In the United Kingdom, output dropped sharply in the fourth quarter of 2008. That reflected lower consumer spending, a further fall in business investment and a rapid run-down in stocks, in part offset by stronger net exports as the past depreciation of sterling began to take effect. Business surveys continue to point to a similar rate of contraction in the early part of this year. Unemployment has risen markedly. Credit conditions faced by companies and households remain tight.

CPI inflation declined to 3.0% in January. The depreciation of sterling is adding to imported cost pressures, but pay pressures continue to wane. Inflation is likely to fall below the 2% target by the second half of the year, reflecting diminishing contributions from retail energy and food prices and the impact of the temporary reduction in Value Added Tax.

At its March meeting, the Committee noted that the February *Inflation Report* had implied a substantial risk of undershooting the 2% CPI inflation target in the medium term and that a further easing in monetary policy was likely to be needed. Data released since the finalisation of the *Report* had not materially altered that prospect. Accordingly, the Committee concluded that a further easing in the stance of monetary policy was warranted. But the Committee also noted that a very low level of Bank Rate could have counter-productive effects on the operation of some financial markets and on the lending capacity of the banking system. On balance, the Committee decided to reduce Bank Rate by 0.5 percentage points, to 0.5%.

The Committee judged that this reduction in Bank Rate would by itself still leave a substantial risk of undershooting the 2% CPI inflation target in the medium term. Accordingly, the Committee also resolved to undertake further monetary actions, with the aim of boosting the supply of money and credit and thus raising the rate of growth of nominal spending to a level consistent with meeting the inflation target in the medium term.

To that end, and noting the recent exchange of letters between the Governor and the Chancellor of the Exchequer concerning the use of the Asset Purchase Facility for monetary policy purposes, the Committee agreed that the Bank should, in the first instance, finance £75 billion of asset purchases by the issuance of central bank reserves. The Committee recognised that it might take up to three months to carry out this programme of purchases. Part of that sum would finance the Bank of England's programme of private sector asset purchases through the Asset Purchase Facility, intended to improve the functioning of corporate credit markets. But in order to meet the Committee's objective of total purchases of £75 billion, the Bank would also buy medium and long-maturity conventional gilts in the secondary market. It is likely that the majority of the overall purchases by value over the next three months will be of gilts.

At its future meetings, the Committee will monitor the effectiveness of this purchase programme in boosting the supply of money and credit and in due course raising the rate of growth of nominal spending, adjusting the speed and scale of purchases as appropriate.

The minutes of the meeting will be published at 9.30 am on Wednesday 18 March.

Text of Bank of England press notice of 9 April 2009

Bank of England maintains Bank Rate at 0.5% and continues with £75 billion Asset Purchase Programme

The Bank of England's Monetary Policy Committee today voted to maintain the official Bank Rate paid on commercial bank reserves at 0.5%. The Committee also voted to continue with the programme, announced on 5 March, of asset purchases totalling £75 billion financed by the issuance of central bank reserves.

The Committee noted that since its previous meeting a total of just over £26 billion of asset purchases had been made and that it would take a further two months to complete that programme.

The minutes of the meeting will be published at 9.30 am on Wednesday 22 April.

Text of Bank of England press notice of 7 May 2009

Bank of England maintains Bank Rate at 0.5% and increases size of Asset Purchase Programme by £50 billion to £125 billion

The Bank of England's Monetary Policy Committee today voted to maintain the official Bank Rate paid on commercial bank reserves at 0.5%. The Committee also voted to continue with its programme of asset purchases financed by the issuance of central bank reserves and to increase its size by £50 billion to a total of £125 billion.

The world economy remains in deep recession. Output has continued to contract and international trade has fallen precipitously. The global banking and financial system remains fragile despite further significant intervention by the authorities. In the United Kingdom, GDP fell sharply in the first quarter of 2009. But surveys at home and abroad show promising signs that the pace of decline has begun to moderate.

CPI inflation was 2.9% in March, significantly higher than the 2% inflation target. Past falls in sterling have continued to put upwards pressure on inflation. But the degree of spare capacity in the economy has increased and the loosening in the labour market has contributed to a sharp easing in pay pressures. CPI inflation is likely to drop below the 2% target later this year, driven in part by diminishing contributions from food and energy prices. The substantial margin of spare capacity in the economy should continue to bear down on inflation thereafter.

The Committee noted that the outlook for economic activity was dominated by two countervailing forces. The process of adjustment in train in the UK economy, as private saving rises and banks restructure their balance sheets, combined with weak global demand, will continue to act as a significant drag on economic activity. But pushing in the opposite direction, there is considerable economic stimulus stemming from the easing in monetary and fiscal policy, at home and abroad, the substantial depreciation in sterling, past falls in commodity prices, and actions by authorities internationally to improve the availability of credit. That stimulus should in due course lead to a recovery in economic growth, bringing inflation back towards the 2% target. But the timing and strength of that recovery is highly uncertain.

In the light of that outlook and in order to keep CPI inflation on track to meet the 2% inflation target over the medium term, the Committee judged that maintaining Bank Rate at 0.5% was appropriate. The Committee also agreed to continue with its programme of purchases of government and corporate debt financed by the issuance of central bank reserves and to increase its size by £50 billion to a total of £125 billion. The Committee expected that it would take another three months to complete that programme, and it will keep the scale of the programme under review.

The Committee's latest inflation and output projections will appear in the *Inflation Report* to be published on Wednesday 13 May.

The minutes of the meeting will be published at 9.30 am on Wednesday 20 May.