

BANK OF ENGLAND
LONDON EC2R 8AH

5 November 2009

The Rt Hon Alistair Darling
Chancellor of the Exchequer
HM Treasury
1 Horse Guards Road
London
SW1A 2HQ

Dear Chancellor,

At its meeting today, the Monetary Policy Committee judged that, in order to keep inflation on track to meet the 2% inflation target over the medium term, its programme of asset purchases should be increased to a total of £200 billion and Bank Rate should be maintained at 0.5%. That would take the scale of the Committee's asset purchase programme above the £175bn authorised in your letter of 6 August.

The context for that decision can be summarised as follows. The world economy has shown signs of recovery, with a number of emerging market economies experiencing a strong rebound in growth, although global activity as a whole remains significantly depressed. Asset prices have risen internationally since the spring, reflecting both the gradual improvement in the economic climate and accommodative monetary policies. And banks' funding conditions have improved, though financial conditions remain fragile.

In the United Kingdom, output has fallen by almost 6% since the start of 2008. Households have reduced their spending substantially and business investment has fallen especially sharply. GDP continued to fall in the third quarter. A number of indicators of spending and confidence, however, suggest that a pickup in economic activity may soon be evident.

CPI inflation fell to 1.1% in September, having been 5.2% a year earlier. Inflation is likely to rise sharply to above the 2% target in the near term, reflecting higher petrol price inflation and the reversal of last year's reduction in VAT.

The medium-term prospects for output and inflation continue to be determined by the balance between two opposing sets of forces. On the one hand, there is a considerable stimulus still working through from the substantial easing in monetary and fiscal policy. The Bank's asset

purchases have helped to boost asset prices and improve access to capital markets. The sterling effective exchange rate lies around a quarter below its mid-2007 level, improving the competitiveness of UK producers. On the other hand, the need for banks to continue the process of balance sheet repair is likely to limit the availability of credit. And high levels of debt will weigh on spending. On balance, the Committee believes that the prospect is for a slow recovery in the level of economic activity, so that a substantial margin of under-utilised resources persists. That will continue to bear down on inflation for some time to come, offset in the short run by the impact of the past depreciation of sterling.

I am therefore requesting the authority to use the Asset Purchase Facility to purchase assets totalling £200 billion. The structure and operation of the Asset Purchase Facility would otherwise be unchanged from that described in your letter of 3 March.

I am copying this letter to The Rt Hon John McFall MP, Chairman of the Treasury Committee.

Yours sincerely

A handwritten signature in black ink, appearing to read 'A. King'. The signature is written in a cursive style with a large initial 'A' and a trailing flourish.