



BANK OF ENGLAND

Minutes of the special Monetary Policy Committee meeting on 19 March 2020 and the Monetary Policy Committee meeting ending on 25 March 2020

Publication date: 26 March 2020

These are the minutes of the special Monetary Policy Committee meeting on 19 March 2020 and the Monetary Policy Committee meeting ending on 25 March 2020.

The special MPC meeting on 19 March was convened by the Governor under the provisions of paragraph 10(2) of Schedule 3 to the Bank of England Act 1998, as amended by the Bank of England and Financial Services Act 2016.

They are available at <https://www.bankofengland.co.uk/monetary-policy-summary-and-minutes/2020/march-2020>.

The Bank of England Act 1998 gives the Bank of England operational responsibility for setting monetary policy to meet the Government's inflation target. Operational decisions are taken by the Bank's Monetary Policy Committee. The minutes of the Committee meeting ending on 6 May will be published on 7 May 2020.

Monetary Policy Summary, Monetary Policy Committee meeting ending on 25 March 2020

The Bank of England's Monetary Policy Committee (MPC) sets monetary policy to meet the 2% inflation target, and thereby helps to sustain growth and employment. In that context, its challenge over recent weeks has been to respond to the severe economic and financial disruption caused by the spread of Covid-19.

The spread of the disease and the measures that are likely to be needed to contain it have evolved significantly. The economic consequences of these developments are becoming more apparent and a very sharp reduction in activity is likely. Given the severity of that disruption, there is a risk of longer-term damage to the economy, especially if there are business failures on a large scale or significant increases in unemployment.

In the near term, many people will be unable to work for a period and others are adjusting their working arrangements. Many consumer-facing companies are now required to cease operations for a time, while other businesses have also needed to cease or scale back their activities. Household spending on social activities and other delayable forms of consumption is likely to decline materially. In an environment of heightened uncertainty, businesses are likely to postpone investment decisions. Exports are likely to weaken. These effects on economic activity will be offset partly by temporarily higher spending on essential goods and services. Nonetheless, business cashflows will be severely affected in a way that, without support measures, would threaten material numbers of businesses failing, and large and persistent rises in unemployment.

There is little evidence as yet to assess the precise magnitude of the economic shock from Covid-19. It is probable that global GDP will fall sharply during the first half of this year. Unemployment is likely to rise rapidly across a range of economies, as suggested by early indicators.

In the United Kingdom, even before the introduction of the most recent social distancing measures, the composite flash output and expectation PMIs fell sharply in March to their all-time lowest levels, consistent with a material contraction in GDP. Other timely indicators of activity, such as footfall in shops and the number of flights, have also declined sharply.

There have been very significant moves in a range of financial market prices and implied volatilities have risen to historically elevated levels, with evidence of widespread disruption to market functioning. Risky asset prices have fallen and, in the period leading up to the MPC's special meeting on 19 March, yields on longer-term government debt rose. Additional demand for US dollar liquidity contributed to disruption in dollar funding markets, and in other usually liquid markets. The sterling exchange rate has depreciated sharply.

Overall, UK and global financial conditions have tightened materially. All major central banks have set out wide-ranging policy responses that have helped to stabilise markets and improve liquidity in government bond markets.

What public policy is doing

The front line of combatting the challenges of Covid-19 comprises the extraordinary efforts of NHS health professionals, carers and volunteers across the country.

Monetary policy should take into account the broader public policy response to reduce the disruptive consequences for households and businesses of the spread of Covid-19. This should help to minimise the longer-term damage to the economy when the health crisis abates.

In this environment, it is essential that monetary and financial stability are maintained, as these are pre-requisites of longer-term economic prosperity. Consistent with this, the Bank of England has coordinated its actions with those of the UK Government in order to ensure that these initiatives are complementary and have maximum impact in supporting households and businesses during this period of disruption.

The Government has announced a series of substantial fiscal support measures to alleviate some of the severe cashflow problems facing businesses and households.

The Bank of England also has a role to play in supporting businesses and households through the economic disruption associated with Covid-19.

The Financial Policy Committee (FPC) reduced the UK countercyclical capital buffer rate to 0% of banks' exposures to UK borrowers at its policy meeting on 9 March. This action supports the ability of banks to supply the credit needed by households and businesses. The FPC, together with the Prudential Regulation Committee, will monitor closely the response of banks to recent measures, as well as the credit conditions faced by UK businesses and households more generally.

On 17 March, HM Treasury announced the creation of the Covid Corporate Financing Facility (CCFF), for which the Bank would act as HM Treasury's agent. This will provide funding to businesses by purchasing commercial paper of up to a one-year maturity. As an alternative source of finance for larger companies, the scheme will help preserve the capacity of the banking system to lend to other companies, including small and medium-sized enterprises.

The CCFF is being funded by the issuance of additional central bank reserves but is set up in a separate legal entity from the Bank and from the Asset Purchase Facility. The MPC will continue to decide on the overall amount of asset purchases that are financed by central bank reserves. It is therefore taking the size of the CCFF into account when taking its decisions on the target stock of government and corporate bonds financed by reserves necessary to fulfil its remit.

The role of monetary policy

As set out in the Chancellor's letter on 11 March, the MPC has statutory objectives to maintain price stability and, subject to that, to support the economic policy of the Government including its objectives for growth and employment. The updated remit letter confirms that the operational target for monetary policy remains an inflation rate of 2% measured by the 12-month increase in the Consumer Prices Index (CPI).

CPI inflation was 1.7% in February. Prior to recent developments, inflation was already set to fall further below the MPC's 2% target. It is now likely to decline to below 1% in the spring, reflecting the pass-through to fuel prices of the recent and sharp decline in the oil price. Further ahead, inflation will be boosted by the significant depreciation of the sterling exchange rate. The MPC will be monitoring closely developments in inflation and in indicators of inflation expectations, including those of households, businesses and financial markets. Financial market measures of inflation expectations have not risen over recent weeks.

The nature of the economic shock from Covid-19 is very different from those to which the MPC has previously had to respond. The scale and duration of the shock to economic activity, while highly uncertain, will be large and sharp but should ultimately prove temporary, particularly if job losses and business failures can be minimised. In the current circumstances, and consistent with the MPC's remit, monetary policy is aimed at guarding against an unwarranted tightening in financial conditions and, more broadly, supporting businesses and households through the crisis and limiting any lasting damage to the economy.

What the MPC is doing

Over recent weeks, the MPC has reduced Bank Rate by 65 basis points, from 0.75% to 0.1%, and introduced a Term Funding scheme with additional incentives for Small and Medium-sized Enterprises (TFSME). It has also announced an increase in the stock of asset purchases, financed by the issuance of central bank reserves, by £200 billion to a total of £645 billion. Those purchases are being undertaken as soon as operationally possible, consistent with improved market functioning. The majority of additional asset purchases would comprise UK government bonds. Some additional sterling non-financial investment-grade corporate bonds would also be purchased.

At its meeting ending on 25 March 2020, the MPC voted unanimously to maintain Bank Rate at 0.1%. The Committee also voted unanimously for the Bank of England to continue with the programme of £200 billion of UK government bond and sterling non-financial investment-grade corporate bond purchases, financed by the issuance of central bank reserves, to take the total stock of these purchases to £645 billion.

The MPC will monitor closely the pass-through to banks and building societies' lending rates of the recent reductions in Bank Rate.

Regarding the impact of asset purchases, gilt yields fell significantly following the previous week's special MPC meeting and the commencement of additional gilt purchase operations from 20 March. If needed, the MPC can expand asset purchases further.

The MPC will continue to monitor the situation closely and, consistent with its remit, stands ready to respond further as necessary to guard against an unwarranted tightening in financial conditions, and support the economy.

Minutes of the special Monetary Policy Committee meeting on 19 March 2020 and the Monetary Policy Committee meeting ending on 25 March 2020

1 The Governor convened a special meeting of the Monetary Policy Committee (MPC) on 19 March 2020 to consider the response of monetary policy to the economic shock from Covid-19. In these extraordinary circumstances, the meeting had been called under the provisions of paragraph 10(2) of Schedule 3 to the Bank of England Act 1998, as amended by the Bank of England and Financial Services Act 2016.

2 In order to support the MPC's policy deliberations around both its special meeting and the regularly scheduled MPC meeting ending on 25 March 2020, the Committee had been briefed by Bank staff on recent developments, including: financial markets; the international economy; and current economic conditions.

Data covering the period prior to the escalation of the spread of Covid-19

3 The official UK economic data released since the MPC's special meeting on 10 March had related principally to the period prior to the escalation of the spread of Covid-19. GDP had been flat in the three months to January compared to the previous three months, broadly in line with the expectation at the time of the January *Monetary Policy Report*. Employment growth had remained robust, at 0.6% in the three months to January, although the unemployment rate had ticked up to 3.9%. Whole economy total pay growth had been 3.1%, a little softer than projected in the January *Report*. CPI inflation had fallen to 1.7% in February, in line with the January *Report*.

Economic channels and impacts related to the spread of Covid-19

4 The spread of Covid-19 and the measures that were likely to be needed to contain it had evolved significantly and very rapidly over recent weeks. The economic consequences of these developments were becoming more apparent and a very sharp reduction in economic activity was likely. The Committee discussed: the economic channels and impacts related to the spread of Covid-19; the risks of longer-term damage to the economy, especially if there were business failures on a large scale or significant increases in unemployment; and the appropriate role for economic policy.

5 Many people would be unable to work as normal for a period of time. In response to social distancing measures, some people might be able to work from home. Others would, however, be unable to work while their companies had to cease, or were severely curtailing, operations temporarily. These effects would vary across individuals and sectors of the economy. The reduction in the demand for labour could significantly increase unemployment.

6 If workers were laid off for a temporary period, or lost their jobs and were unable to find another one, they would suffer a reduction in their incomes. In those circumstances, some households would be able to draw down on their savings or borrow to smooth their consumption. But others, with limited savings or ability to borrow, would have to restrict their spending involuntarily. Moreover, people who remained employed might become concerned that they would lose their jobs and see their incomes fall, possibly leading to a precautionary reduction in spending.

7 Spending was also likely to be depressed significantly as a result of social distancing measures. People who were isolated at home would be unable to spend as usual on social activities, including at restaurants and hotels, on leisure travel, and sporting and cultural events, which together accounted for around a fifth of consumption in the United Kingdom. Work-related spending, for instance on transport fares and fuel, would also go down if people were either working more from home or not working; this represented around a tenth of household spending.

8 Economic uncertainty and confidence effects generated by the spread of Covid-19 would amplify the reduction in household consumption. This could mean that households would spend less on consumption that could be postponed, such as of durable goods, which accounted for around a fifth of spending. They might also be more reluctant to make major decisions such as purchasing a house.

9 Household spending on essential goods and services, such as food and drink, was likely to rise in the short term. For instance, households could substitute away from eating out to eating at home and they could bring forward purchases of non-perishable food. Although essential goods and services accounted for around half of household spending, the probable large fall in other types of consumption implied that there would be a substantial reduction in the overall level of household spending.

10 Partly as a consequence, companies' revenues would be depressed, in some cases severely. Some businesses would cease operations on a temporary basis. Those who had not suspended activities could suffer a loss of revenue in the face of reduced customer demand. In addition, the diminished availability of workers and disruptions to supply chains at home and abroad would reduce some companies' ability to produce. In the face of economic uncertainty and reduced confidence about the outlook, firms were likely to respond by delaying spending where possible, notably on capital goods. Falls in risky asset prices could raise the cost of capital faced by firms and amplify the initial reduction in economic activity. In such circumstances, firms might respond to the significant, but ultimately temporary, reduction in their revenues by laying off staff as well as mothballing or scrapping capital equipment. There was a risk of business failures on a large scale.

11 The experience of companies across the economy was likely to differ markedly. In companies in some sectors, a margin of excess supply could open up in the face of depressed demand. In other sectors, companies might find it difficult to meet increased demand, either because of households switching away from spending on social activities to those companies' products and services, or because domestic or international supply chain difficulties could lead to a lack of access to key inputs.

12 Lower demand in some sectors might lead some firms to cut prices, while higher costs or high demand in others might put upward pressure on prices. In addition, there could be a direct impact on consumer prices from changes in import prices, either because of exchange rate developments or changes in foreign prices, particularly those of oil and other commodities. The MPC would continue to monitor a range of indicators of inflation expectations to ensure that they remained anchored to the 2% target.

13 In these extraordinary circumstances, the aim of economic policy was to minimise the disruptive consequences for households and businesses of the spread of Covid-19. It could do that through measures to maintain the availability of finance or reduce the cost of borrowing, improving cashflows and supporting spending by consumers and companies. The government could also offer direct support in the form of tax relief and loans, which would improve cashflows and would encourage businesses to furlough workers rather than laying them off, in turn maintaining household incomes and spending.

14 Given the severity of the expected disruption to activity, there was a risk of longer-term damage to the economy when the health crisis abated, especially if there were business failures on a large scale or significant increases in unemployment. The aim of economic policy was to help to minimise that damage.

Recent developments

Financial markets

15 Between the MPC's special meetings ending on 10 March and on 19 March, there had been a significant further tightening in financial conditions and a deterioration in market functioning, both globally and in the United Kingdom. Risky asset prices had continued to fall sharply. Earlier in March, this had been accompanied by declines in government bond yields. During the period leading up to 19 March, however, those yields had risen sharply, even as prices of risky assets had continued to decline. Measures of liquidity in government bond markets had deteriorated markedly. There had been additional demand for short-term assets, US dollar liquidity in particular.

16 At the time of the MPC's special meeting on 19 March, major global equity indices had been around 10 to 20% lower than at the time of the special meeting ending on 10 March, and around 30% lower than at the time of the MPC's January meeting. Measures of equity market implied volatility, such as the VIX, had picked up from already elevated levels to reach all-time highs. Both investment-grade and high-yield corporate bond spreads had widened markedly further in all major currencies, although they had remained lower than the levels reached during the global financial crisis.

17 Advanced economy government bond yields, which typically fall when risk appetite weakens, had increased sharply in the period between the special meetings ending on 10 and on 19 March. Ten-year government bond yields had picked up by around 40 to 50 basis points in the United States, the euro area and the United Kingdom. US Treasury markets, which were normally highly liquid, had seen significant volatility,

with a notable widening in bid-offer spreads. US dollar commercial paper funding markets had been highly stressed.

18 Market contacts indicated that many investors had sought to move their portfolio holdings away from risky assets and government bonds and into cash, particularly US dollars. This had led to a sharp appreciation of the dollar, which had been around 7½% higher than at the time of the MPC's January meeting, and a depreciation of other major currencies, including sterling. Conditions in foreign exchange swap markets had become stressed, with investors' demand for dollar funding very high, and dealers stepping back from intermediating in some markets. Those effects had been exacerbated by operational constraints, as firms implemented contingency plans to mitigate the effects of the virus.

19 Conditions in the UK gilt market had deteriorated notably and gilt yields had risen sharply in the run-up to the special meeting on 19 March. Coupled with the falls in risky asset prices, there had been a material tightening in UK financial conditions, despite sterling having fallen sharply. UK banks' funding costs had picked up further, broadly in line with their international peers. Spreads in wholesale unsecured funding markets, which were now largely closed, had exceeded their post-EU referendum peak. Bank CDS spreads and option-adjusted spreads on UK banks' additional Tier 1 issuance had also risen further, and major UK banks' equity prices had fallen again.

20 At its special meeting on 19 March, the MPC announced a policy package including an additional £200 billion of asset purchases. That, alongside announcements from HM Treasury on 20 March of further targeted assistance to businesses, including salary guarantees, had helped to improve sentiment in sterling markets. Immediately following the MPC's announcement on 19 March, gilt yields had fallen, the yield curve had flattened and sterling had risen a little. Conditions in the gilt market had calmed, although repo and money markets had continued to be disrupted, with the Libor-OIS spread falling slightly but remaining elevated.

21 There had also been significant policy announcements in other countries recently. Amongst other measures, on 15 March, the Federal Reserve had announced a further cut of 100 basis points in the target range for the federal funds rate and additional purchases of US Treasuries and agency mortgage-backed securities. This had been followed by new facilities to support commercial paper funding on 17 March, and money market mutual fund liquidity on 19 March, which were both expanded on 23 March. Also on 23 March, the Federal Reserve had announced further, open-ended asset purchases, alongside programmes to support lending to small and medium-sized enterprises (SMEs), bond and loan issuance by larger corporates, and the issuance of asset-backed securities.

22 The ECB had announced additional asset purchases and further long-term repo operations on 12 March, and a new temporary pandemic emergency purchase programme for private and public sector bonds on 18 March. Several major central banks had in mid-March announced co-ordinated action to enhance the provision of liquidity via US dollar liquidity swap line arrangements, including widening the countries involved and increasing the frequency of operations.

23 In addition, fiscal authorities around the world had announced significant measures designed to support companies, workers and the economy more broadly. In particular, it appeared likely that the US Congress would agree a large fiscal stimulus package.

24 By the time of the MPC's meeting ending on 25 March, and in part reflecting these global policy actions, equity prices had picked up, corporate bond spreads had stabilised, and there were tentative signs of improvement in some measures of market functioning in fixed income markets, particularly in the United States. However, market contacts reported that conditions nevertheless remained fragile, even in the typically most liquid instruments.

The international economy

25 Timely data and surveys of international activity released since the Committee's special meeting ending on 10 March had continued to suggest that a very sharp reduction in global economic activity was underway. Covid-19 had continued to spread rapidly across economies, prompting governments worldwide to take public health measures that would have significant economic impacts. Authorities had taken measures including restrictions on national and international travel, school closures, the cancellation of public events and social distancing more generally. These measures were already having a marked effect on economic activity.

26 As a result, it was probable that global GDP would fall sharply during the first half of this year, although there would be a rebound at some stage thereafter, depending in part on how long the social distancing measures remained in place.

27 Covid-19 had initially impacted the Chinese economy, and data had been particularly weak there. Industrial production had fallen by 13.5% on a year ago in the joint January-February data, the largest fall since the series began in 1990. Retail sales had recorded the largest fall ever in the joint January-February data, down by over 17% compared to the same period a year earlier. The urban-surveyed unemployment rate had risen by almost 1 percentage point relative to the previous month, to 6.2%. Recent data, including labour migration statistics and passenger traffic, had suggested some improvement from the trough in February, however.

28 The disease had also had a marked impact in the euro area, most notably in Italy, where a variety of indicators of economic activity had fallen very sharply. The euro-area flash composite output PMI for March had fallen materially, by 20 points to 31, with a particularly pronounced fall in the services index. Supply chains had been disrupted, with supplier delivery times rising further.

29 In the United States, supplier delivery times had also lengthened. Leisure-related spending had slowed materially. There had been a sharp rise in new unemployment insurance claims in the week ending 14 March, driven by the states of California and Washington, with signs of an even larger rise in the following week. Internet searches for terms relating to unemployment benefit had risen sharply in a number of countries, consistent with the impact of the spread of the virus now broadening to the labour market. The US Markit

composite flash PMI for March had fallen by 9 points to 41, with a particularly pronounced fall in the services index.

30 The deterioration in risk sentiment had affected emerging markets too. There had been capital outflows, a depreciation of these currencies against the dollar and a broader tightening in financial conditions in many of these economies.

31 Spot oil prices had fallen further, to \$27 per barrel, mainly reflecting the weakness of global demand. That compared with \$37 at the time of the special MPC meeting ending on 10 March, and \$62 at the time of the January *Monetary Policy Report*.

Current economic conditions

32 Since the MPC's special meeting ending on 10 March, UK survey data had begun to reflect the impact of the spread of Covid-19. The IHS Markit PMI surveys for March had been conducted between 12 and 20 March, before the more restrictive social distancing measures had been announced by the Government. The flash composite output and expectation indices had nonetheless fallen very sharply, to all-time lows. This was consistent with a steep fall in output in March. Given the more restrictive measures introduced on 23 March, it was likely that economic activity would contract significantly further in April and in 2020 Q2 as a whole.

33 The latest indicators also pointed to a marked deterioration in labour market conditions. The IHS Markit flash composite employment index fell to a level that was consistent with a fall in employment. Around 90% of recruiters responding to a REC survey conducted on 13 March thought that Covid-19 would have an adverse impact on hiring activities in the short-term. In the March IHS Markit Household Finance survey, the job security perceptions index had fallen to its lowest level for over eight years. The Department for Work and Pensions had reported a marked rise in claims for Universal Credit, and internet searches for terms relating to unemployment and redundancy had picked up sharply.

34 Given lags in official data, Bank staff had been monitoring closely other timely indicators of activity. These had indicated sharp falls in consumer spending in recent weeks. Restaurant bookings, spending in cinemas and footfall in the hospitality sector had all fallen substantially as a result of social distancing. In total, social activities comprised one fifth of consumer spending. Spending in the UK was also likely to be reduced by consumers delaying purchases of durable goods, such as cars, and by a marked fall in spending by foreign tourists as a result of restrictions on travel around the world.

35 The Bank's Agents reported that the fall in output had become much more widespread since the MPC's special meeting ending on 10 March. Activity was falling rapidly in many sectors due to a combination of economic uncertainty, supply-chain disruption, travel restrictions and social distancing. Many contacts had suffered cashflow problems as revenues had fallen and had responded by reducing operations and working hours to save costs. There was some evidence of redundancies, although early reports suggested that the Government's Coronavirus Job Retention Scheme would help to prevent some job losses that might otherwise have occurred. Demand for short-term credit had increased, although some companies reported that credit

availability had tightened. Housing market activity had declined sharply as uncertainty and social distancing measures had deterred buyers and sellers.

36 The Bank's latest Decision Maker Panel (DMP), conducted over the period from 6 to 20 March, indicated that many businesses expected Covid-19 to have a large negative impact on sales over the next year. Businesses in the leisure and tourism, accommodation and food, and transport and storage sectors were expected to be the most severely affected. Covid-19 had created significant uncertainty for businesses, with around half of respondents saying that it was the most important source of uncertainty they faced.

37 The near-term outlook for inflation was lower than at the time of the MPC's special meeting ending on 10 March. The recent additional fall in the oil price would feed through to lower fuel prices, while the Budget had also included a freeze in duties on fuel and alcohol. As a result, CPI inflation was likely to fall below 1% in 2020 Q2, which would require the Governor to write a letter to the Chancellor.

The immediate policy decisions

38 The MPC sets monetary policy to meet the 2% inflation target, and thereby helps to sustain growth and employment. In that context, its challenge over recent weeks had been to respond to the severe economic and financial disruption caused by the spread of Covid-19.

39 CPI inflation had been 1.7% in February. Prior to recent developments, inflation had already been set to fall further below the MPC's 2% target. It was now likely to decline to below 1% in the spring, reflecting the pass-through to fuel prices of the recent and sharp decline in the oil price. Further ahead, inflation would be boosted by the significant depreciation of the sterling exchange rate. The MPC would be monitoring closely developments in inflation and in indicators of inflation expectations, including those of households, businesses and financial markets. Financial market measures of inflation expectations had not risen over recent weeks.

40 The Committee noted that, owing to the impact the spread of Covid-19 would have on household spending patterns and the ability of the ONS to collect price data, the construction of the CPI beyond March could become more challenging, and the index might be less representative of spending patterns, for a period. Bank staff and the ONS would continue to liaise on these issues.

41 The nature of the economic shock from Covid-19 was very different from those to which the MPC had previously had to respond. The scale and duration of the shock to economic activity, while highly uncertain, would be large and sharp but should ultimately prove temporary, particularly if job losses and business failures could be minimised. In the current circumstances, and consistent with the MPC's remit, monetary policy was aimed at guarding against an unwarranted tightening in financial conditions and, more broadly, supporting businesses and households through the crisis and limiting any lasting damage to the economy.

42 In the period between the MPC's previous special meeting ending on 10 March and the special MPC meeting on 19 March, the spread of Covid-19 and the measures that were likely to be needed to contain the virus had evolved significantly. At its special meeting on 19 March, the Committee focused on: recent dislocations in financial markets; the consequent tightening in financial conditions; and the scope of any additional monetary policy response, having regard for the actions of the Bank of England and UK Government since the MPC's previous special meeting.

43 In the days leading up to the special MPC meeting on 19 March, UK and global financial conditions had tightened significantly further. In common with a number of other advanced economy bond markets, conditions in the UK gilt market had deteriorated substantially as investors had sought shorter-dated instruments that were closer substitutes for highly liquid central bank reserves. Corporate bond spreads had also widened materially. Volatility in stock markets had risen to historically elevated levels and equity prices had fallen significantly further. Sterling had depreciated sharply. As a consequence, all major central banks had set out wide-ranging policy responses.

44 There was little evidence as yet to assess the magnitude of the economic shock from Covid-19. The MPC nevertheless judged that activity had fallen materially in both the global and domestic economy over recent weeks and would remain at or below that weakened level in the immediate period ahead.

45 The Budget on 11 March had included a range of fiscal support measures on which the MPC had been briefed by the HM Treasury representative ahead of the special MPC meeting ending on 10 March.

46 On 15 March, the Bank of Canada, the Bank of England, the Bank of Japan, the European Central Bank, the Federal Reserve, and the Swiss National Bank had announced a coordinated action to enhance the provision of liquidity via the standing US dollar liquidity swap line arrangements. These swap lines were available standing facilities and served as an important liquidity backstop to ease strains in global funding markets.

47 On 17 March, HM Treasury had announced the creation of the Covid Corporate Financing Facility (CCFF), for which the Bank would act as HM Treasury's agent. The CCFF would provide funding to investment-grade businesses who were making a material contribution to the UK economy. It would do so by purchasing commercial paper of up to a one-year maturity. This would help businesses across a range of sectors to pay wages and suppliers, while experiencing severe disruption to cashflows. The facility would offer financing on terms comparable to those prevailing in markets in the period before the Covid-19 economic shock, and would be open to firms that could demonstrate they had been in sound financial health prior to the shock. The scheme would operate for at least 12 months and for as long as steps were needed to relieve cash flow pressures on firms. By providing an alternative source of finance for larger companies, the scheme would help to preserve the capacity of the banking system to lend to other companies, including SMEs, which tended to have fewer alternatives to funding from banks.

48 Consistent with the published framework for engagement between the Bank of England's Executive and the MPC with regard to the Bank's Sterling Monetary Framework, in particular with regard to those operations that affected monetary conditions, the Committee had been briefed ahead of the announcement of the CCFF and had welcomed the introduction of the new facility. As set out in the letter that the Governor had sent to the Chancellor on 17 March, the CCFF would be funded by the issuance of additional central bank reserves but would be set up in a separate legal entity from the Bank and from the existing Asset Purchase Facility (APF). The MPC would continue to decide on the overall amount of asset purchases that were financed by central bank reserves. It would therefore take the size of the CCFF into account when it took its decisions on the target stock of government and corporate bonds financed by reserves necessary to fulfil its remit. In addition, the MPC was able to limit the increase in central bank reserves required to fund the CCFF should it consider it necessary to do so in the future to meet the 2% inflation target.

49 Alongside the introduction of the CCFF on 17 March, the Chancellor had also announced additional measures, including: increasing the amount that businesses could borrow through the Coronavirus Business Interruption Loan Scheme from £1.2 million to £5 million, and ensuring businesses could access the first six months of that finance interest-free; and providing £20 billion of business rates support and grant funding to help the most-affected companies manage their cashflows.

50 At its special meeting on 19 March, the MPC judged that a further, comprehensive package of measures was warranted to meet its statutory objectives. In these extraordinary circumstances, and alongside other policy responses, there was a role for monetary policy to support UK businesses and households through a sharp but ultimately temporary reduction in activity, and so help to prevent a temporary disruption from causing longer-lasting economic harm.

51 The Committee considered the extent to which the Bank of England should expand its asset purchase programme via the APF and financed by the issuance of central bank reserves. An increase in the Bank's gilt purchases would help improve the functioning of the gilt market and help to counteract a tightening of monetary and financial conditions that would put at risk the MPC's statutory objectives, especially as the economy was now likely to be weakening very rapidly. The Committee agreed that the majority of additional purchases would be of UK government bonds.

52 Given prevailing conditions, there was a strong case to make any new asset purchases at a materially higher pace than in previous programmes. Front-loading purchases, as much as was operationally possible, should increase the effectiveness of the policy in counteracting an unwarranted tightening of monetary and financial conditions.

53 Under a new programme, the Bank of England would continue to purchase evenly across three gilt maturities. The maturity sectors would, however, be redefined as: UK government bonds with a residual maturity of 3-7 years (short), unchanged from previous programmes; those with a residual maturity of 7-20 years (medium), compared with 7-15 years previously; and those with a residual maturity of over 20 years (long), compared with over 15 years previously. That change in definition would free up additional headroom to purchase gilts, while maintaining equal purchases across the three sectors.

54 The Committee discussed increasing the stock of sterling non-financial investment-grade corporate bonds in the APF. Given recent market developments, such purchases would help to improve market functioning and to reduce liquidity premia. Although corporate bond purchases could not be implemented as quickly as purchases of gilts, a new programme would be set up in coming weeks. Any purchase programme could be at least as large, and could be completed at least as quickly, as the programme introduced following the EU referendum in 2016. In the meantime, the CCFE would be operating to relieve short-term pressure on large corporate cashflows and working capital financing.

55 The Committee also discussed whether to reduce Bank Rate at this meeting. Given the likely scale of the economic shock from Covid-19, a further cut in Bank Rate would help to support business and consumer confidence, to bolster the cashflows of businesses and households, and to reduce the cost, and improve the availability, of finance.

56 At the special MPC meeting ending on 10 March, the Committee had agreed to set up a Term Funding scheme with additional incentives for SMEs (TFSME). This had in part been designed to ensure that banks and building societies would be able to pass-through the previous cut in Bank Rate. To improve pass-through of a further reduction in Bank Rate, the Committee judged at this meeting that the Bank of England should enlarge the TFSME. Specifically, the initial borrowing allowance of the scheme should be increased, from 5% to 10% of participants' stock of real economy lending, to enhance the ability of banks and building societies to pass-through the lower level of Bank Rate to their lending rates, and to support the supply of credit to households and businesses.

57 At the special MPC meeting on 19 March 2020, the Governor invited the Committee to vote on the propositions that:

Bank Rate should be reduced by 15 basis points to 0.1%;

The Bank of England should enlarge the TFSME, financed by the issuance of central bank reserves;

The Bank of England should, as soon as was operationally possible and consistent with improved market functioning, increase the stock of asset purchases, financed by the issuance of central bank reserves, by £200 billion to a total of £645 billion;

The majority of additional asset purchases should comprise UK government bonds. Some additional sterling non-financial investment-grade corporate bonds should also be purchased.

The Committee voted unanimously in favour of all four propositions.

58 The Committee agreed to announce its policy decision immediately following the end of the special meeting. It also agreed that the minutes of this meeting would be released on 26 March, alongside those of the regularly scheduled meeting ending on 25 March.

59 The Bank would issue a Market Notice on the Asset Purchase Facility and TFSME on 19 March.

60 The following members of the Committee were present at the meeting on 19 March 2020:

Andrew Bailey, Chair
Ben Broadbent
Jon Cunliffe
Andrew Haldane
Jonathan Haskel
Dave Ramsden
Michael Saunders
Silvana Tenreyro
Gertjan Vlieghe

Clare Lombardelli was present as the Treasury representative.

The Monetary Policy Committee meeting ending on 25 March 2020

61 At its regularly scheduled meeting ending on 25 March, the Committee considered: the most recent developments on the spread of Covid-19, and its impact on financial markets, overall financial conditions, and on the global and the UK economies; the channels through which the disease was likely to affect the UK economy; and the appropriate stance of monetary policy, having regard for the fiscal response of the UK Government.

62 The measures taken by monetary and fiscal authorities in the United Kingdom and across the world had helped to stabilise markets and improve liquidity in government bond markets.

63 There was little evidence as yet to assess the precise magnitude of the economic shock from Covid-19. It was probable that global GDP would fall sharply during the first half of this year. Unemployment was likely to rise rapidly across a range of economies, as suggested by early indicators.

64 In the United Kingdom, even before the introduction of the most recent social distancing measures, the composite flash output and expectation PMIs had fallen sharply in March, to their all-time lowest levels, consistent with a material contraction in GDP. Other timely indicators of activity, such as footfall in shops and the number of flights, had also declined sharply.

65 In the near term, many people would be unable to work for a period and others were adjusting their working arrangements. Many consumer-facing companies were now required to cease operations for a time, while other businesses had also needed to cease or scale back their activities. Household spending on social activities and other delayable forms of consumption was likely to decline materially. In an environment of heightened uncertainty, businesses were likely to postpone investment decisions. Exports were likely to weaken. These effects on economic activity would be offset partially by temporarily higher spending on essential goods and services. Nonetheless, business cashflows would be severely affected in a way that, without support measures, would threaten material numbers of businesses failing and large and persistent rises in unemployment.

66 On 20 March, the Government had announced another substantial package of fiscal support measures, including a Coronavirus Job Retention Scheme, an additional six-month extension of the interest-free period in

the Coronavirus Business Interruption Loan Scheme and a deferral of the next quarter of VAT payments. These measures would help to alleviate some of the severe cashflow problems facing businesses and households.

67 On 20 March, the Bank of Canada, the Bank of England, the Bank of Japan, the European Central Bank, the Federal Reserve, and the Swiss National Bank had announced a coordinated action to further enhance the provision of liquidity via the standing US dollar liquidity swap line arrangements. They had agreed to increase the frequency of seven-day maturity operations from weekly to daily.

68 On 24 March, the Bank of England had announced a Contingent Term Repo Facility, which was a flexible liquidity insurance tool that allowed participants to borrow central bank reserves in exchange for other, less liquid assets. This facility was designed to help alleviate the frictions observed in money markets in recent weeks, both globally and domestically.

69 The Committee turned to its immediate policy decision. Over recent weeks, the MPC had reduced Bank Rate by 65 basis points, from 0.75% to 0.1%, and introduced the TFSME. The Bank of England had also commenced the programme of £200 billion of additional asset purchases. As a result, there was not a strong case for further policy changes at this meeting.

70 The MPC would monitor closely the pass-through to banks and building societies' lending rates of the recent reductions in Bank Rate.

71 Regarding the impact of asset purchases, gilt yields had fallen significantly following the previous week's special MPC meeting and the commencement of additional gilt purchase operations from 20 March. If needed, the MPC could expand asset purchases further.

72 The MPC would continue to monitor the situation closely and, consistent with its remit, stood ready to respond further as necessary to guard against an unwarranted tightening in financial conditions, and support the economy.

73 At the MPC meeting ending on 25 March 2020, the Governor invited the Committee to vote on the propositions that:

Bank Rate should be maintained at 0.1%;

The Bank of England should continue with the programme of £200 billion of UK government bond and sterling non-financial investment-grade corporate bond purchases, financed by the issuance of central bank reserves, to take the total stock of these purchases to £645 billion.

The Committee voted unanimously in favour of both propositions.

74 The following members of the Committee were present at the meeting ending on 25 March 2020:

Andrew Bailey, Chair
Ben Broadbent
Jon Cunliffe

Andrew Haldane
Jonathan Haskel
Dave Ramsden
Michael Saunders
Silvana Tenreyro
Gertjan Vlieghe

Clare Lombardelli was present as the Treasury representative.

As permitted under the Bank of England Act 1998, as amended by the Bank of England and Financial Services Act 2016, Bradley Fried was present on 23 March, as an observer for the purpose of exercising oversight functions in his role as a member of the Bank's Court of Directors.