



BANK OF ENGLAND

News release

Press Office

Threadneedle Street

London EC2R 8AH

T 020 7601 4411

F 020 7601 5460

press@bankofengland.co.uk

www.bankofengland.co.uk

6 August 2009

Bank of England Maintains Bank Rate at 0.5% and Increases Size of Asset Purchase Programme by £50 Billion to £175 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 £175 billion.

The world economy remains in recession, though there have been increasing signs that output in the UK's main export markets is stabilising. Financial market strains have eased and banks' funding conditions have improved a little, although financial conditions remain fragile. Household and business confidence has picked up, albeit from the very low levels experienced in the wake of the financial crisis last autumn.

In the United Kingdom, the recession appears to have been deeper than previously thought. GDP fell further in the second quarter of 2009. But the pace of contraction has moderated and business surveys suggest that the trough in output is close at hand. Underlying broad money growth has picked up since the end of last year but remains weak. And though there are signs that credit conditions may have started to ease, lending to business has fallen and spreads on bank loans remain elevated.

CPI inflation fell back to 1.8% in June, a little below the 2% target. The decline in recent months was mainly accounted for by lower food and energy inflation, though past falls in sterling continued to put upward pressure on inflation. The margin of spare capacity in the economy increased further and pay growth remained weak.

The future evolution of output and inflation will be determined by the balance of two sets of forces. On the one hand, there is a considerable stimulus still working through from the easing in monetary and fiscal policy and the past depreciation of sterling. On the other hand, the need for banks to continue repairing their balance sheets is likely to restrict the availability of credit, and past falls in asset prices and high levels of debt may weigh on spending. While some recovery in output growth is in prospect, the margin of spare capacity in the economy is likely to continue to grow for some while yet, bearing down on inflation in the medium term. But the recession and the restricted availability of credit are also likely to impact adversely on the supply capacity of the economy, moderating the increase in economic slack.

In the light of the Committee's latest Inflation Report projections and in order to keep 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. In the light of that outlook, the Committee also agreed that it should extend its programme of purchases of government and corporate debt to a total of £175 billion, financed by the issuance of central bank reserves. The Committee expects the announced programme to take another three months to complete. The scale of the programme will be kept under review.

The Committee noted that the increase in the scale of the programme would necessitate an increase in the range of maturities of government debt that the Bank was willing to purchase. That is explained in <http://www.bankofengland.co.uk/markets/Documents/marketnotice090806.pdf> (12KB)

Following today's meeting of the MPC, the Governor and the Chancellor exchanged letters about the expansion of the Asset Purchase Facility. Those letters can be accessed using the links below in the notes to editors.

The Committee's latest inflation and output projections will appear in the Inflation Report to be published at 10:30am on Wednesday 12 August.

The minutes of the meeting will be published at 9.30am on Wednesday 19 August.

Note to Editors

The previous change in Bank Rate was a reduction of 0.5 percentage points to 0.5% on 5 March 2009. A £75 billion programme of asset purchases financed by the issuance of central bank reserves was initiated on 5 March 2009. The programme was increased to a total of £125 billion on 7 May 2009.

Information on the Asset Purchase Facility can be found on the Bank of England website at www.bankofengland.co.uk/monetarypolicy/assetpurchases.htm. Purchases of £125 billion have been made under this facility since its use for monetary policy purposes was first announced after the Committee's March meeting.

The letter from the Governor to the Chancellor of the Exchequer and the Chancellor's reply to the Governor can be found below:

<http://www.bankofengland.co.uk/monetarypolicy/Documents/pdf/govletter090806.pdf>

6 August 2009

http://webarchive.nationalarchives.gov.uk/+/http://www.hm-treasury.gov.uk/d/chx_letter_060809.pdf

The National Archives – HM Treasury, 6 August 2009