



BANK OF ENGLAND

News release

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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 9.30am on Wednesday 20 May.

Note to Editors

The previous change in Bank Rate was a reduction of 0.5 percentage points to 0.5% on 5 March 2009.

Information on the Asset Purchase Facility can be found on the Bank of England website at

<http://www.bankofengland.co.uk/monetarypolicy/assetpurchases.htm>

Purchases of a little over £52 billion have been made under this facility since its use for monetary policy purposes was first announced after the Committee's March meeting.