



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 £25 Billion to £200 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 £25 billion to £200 billion.

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.

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. The Committee also agreed that it should extend its programme of purchases of government and corporate debt by £25 billion to a total of £200 billion, financed by the issuance of central bank reserves. The Committee expects the announced programme to take three months to complete. The scale of the programme will be kept under review.

The Committee's latest inflation and output projections will appear in the Inflation Report to be published at 10.30am on Wednesday 11 November.

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

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.

Notes 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 and to a total of £175 billion on 6 August 2009. That programme of purchases has been completed.

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

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

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/govletter091105.pdf>

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http://webarchive.nationalarchives.gov.uk/+http://www.hm-treasury.gov.uk/d/chx_letter_051109.pdf

The National Archives – HM Treasury, 5 November 2009