



BANK OF ENGLAND

News release

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Bank of England Maintains Bank Rate at 0.5% and Maintains the Size of the Asset Purchase Programme at £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 maintain the stock of asset purchases financed by the issuance of central bank reserves at £200 billion.

After a substantial fall in output, the United Kingdom economy recorded sluggish growth in the final quarter of 2009. Spending by households appears to have picked up a little, though that may partly reflect temporary factors. The rate of decline in businesses' investment spending appears to have eased. And the world economy continued to recover, raising the demand for UK exports.

CPI inflation has risen sharply to well above the 2% target, reaching 2.9% in December. That rise was largely accounted for by higher petrol price inflation and the reduction in the main VAT rate a year earlier dropping out of the calculation. Inflation is likely to have risen further in January, reflecting the restoration of the VAT rate to 17.5%. Pay growth has remained subdued.

The considerable stimulus from the easing in monetary policy, the lower level of sterling and the recovery in UK export markets should together support domestic activity. But credit conditions are likely to remain restrictive, while the need to strengthen public and private sector finances will also weigh on spending. On balance, the Committee believes that the prospect is for a gradual recovery in the level of activity. The recession has probably impaired the supply capacity of the economy, but the scale and persistence of the fall in output means that a substantial margin of under-utilised resources is likely to remain for some time to come. That is likely to mean that inflation will fall below the target for a period.

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 it was appropriate to maintain Bank Rate at 0.5% and its stock of purchases of government and corporate debt financed by the issuance of central bank reserves at £200 billion. The Committee noted that this stock of past purchases, together with the low level of Bank Rate, would continue to impart a substantial monetary stimulus to the economy for

some time to come. The Committee will continue to monitor the appropriate scale of the asset purchase programme and further purchases would be made should the outlook warrant them.

The Committee's latest inflation and output projections will appear in the Inflation Report to be published at 10.30am on Wednesday 10 February.

The minutes of the meeting will be published at 9.30am on Wednesday 17 February.

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 programme of asset purchases financed by the issuance of central bank reserves was initiated on 5 March 2009. The most recent change in the size of that programme was an increase of £25 billion to a total of £200 billion on 5 November 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 Bank will continue to purchase high-quality private sector assets on behalf of the Treasury and financed by the issue of Treasury bills, in line with the arrangements announced on 29 January 2009. The letter from the Chancellor of the Exchequer to the Governor on 29 January 2009 and the Governor's reply to the Chancellor can be found at the following addresses:

http://www.hm-treasury.gov.uk/d/ck_letter_boe290109.pdf

<http://www.bankofengland.co.uk/markets/apfgovletter090129.pdf>

A letter from the Chancellor of the Exchequer to the Chairman of the Treasury Committee on 4 February 2010 regarding the use of the Asset Purchase Facility for these purposes can be found at the following address:

http://www.hm-treasury.gov.uk/d/chx_letter_040210.pdf