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News release

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The Corporate Sector and the Bank of England's Asset Purchases - Speech by Paul Fisher

In a speech today in London to the Association of Corporate Treasurers, Paul Fisher – Executive Director Markets and member of the Monetary Policy Committee – examines the rationale for the Bank of England's interventions in the corporate credit market, reviews the schemes and evaluates the results so far.

Paul Fisher highlights that the Bank of England intervenes routinely to implement monetary policy operations and provide liquidity insurance to the banking system. He emphasises that these responsibilities do not give it a mandate or the ability to "…provide a source of long-term funding for the commercial banking system" and that it does not "… have access to funds that could be used to sustain commercial lending operations." In relation to the Special Liquidity Scheme (SLS), Paul Fisher notes that it provided a temporary collateral upgrade for banks allowing them to obtain funding from the market. He reiterates that the SLS will close at end January 2012, by which time SLS participants should be funding their balance sheets in the market by other means.

Paul Fisher says that, since a central bank is also concerned with maintaining conditions for the stable provision of financial services to the wider economy, it may step in as 'Market Maker of Last Resort' (MMLR). In explaining this, Paul Fisher sets out some of the principles that can allow such operations to be conducted, consistent with a central bank's other objectives. As the exchange of letters between the Bank and the Chancellor on the APF in January 2009 set out, the purchase of such assets, initially financed by the issue of treasury bills, "…was intended to improve the functioning of markets and so was consistent with a MMLR function" and it also simultaneously provided a framework for quantitative easing.

Evaluating the APF schemes and the motivation for them, Paul Fisher said that the commercial paper (CP) market appeared one where the Bank could intervene "…and so facilitate otherwise credit-worthy firms in maintaining their access to short-term finance." The Bank's intervention appears to have contributed to an improvement in conditions in this market. Similarly the corporate bond facility helped to reduce the liquidity premium in that market by improving the process of price discovery and offering a 'back stop' bid in the secondary market. The speech also reviews other markets that the Bank has considered intervening in.

In concluding, Paul Fisher notes that the commercial paper and corporate bond schemes seem to "…have been reasonably successful in helping to improve key markets and hence facilitating access to credit, at least for larger corporates". These operations have been consistent with a central bank's 'Market Maker of Last Resort' function and the evidence, in conjunction with the very large monetary stimulus at home and abroad, was that these corporate purchases have been "…successful in helping to invigorate those corporate credit markets in which the Bank has intervened."

Key Resources

The Corporate Sector and the Bank of England's Asset Purchases – Full speech
http://www.bankofengland.co.uk/archive/Documents/historicpubs/speeches/2010/speech423.pdf
Accompanying Charts
http://www.bankofengland.co.uk/archive/Documents/historicpubs/speeches/2010/speech423charts.pdf