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News release

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An unconventional journey: The Bank of England's Asset Purchase Programme - Speech by Paul Fisher

In a speech to contacts of the Bank's Agency for the South-West, Paul Fisher - Executive Director Markets and member of the Monetary Policy Committee - reviews the design, implementation and maintenance of the Bank's asset purchase programme, and discusses some of the issues that the MPC will face when it decides to exit from unconventional monetary policy.

Paul Fisher notes that it is "...extremely difficult to know what would have happened in the absence of the asset purchase programme...". But in his view the programme has been "...extremely successful in meeting its immediate objectives"; the purchases were conducted in large size and quickly in order "...to ward off the threat of deflation". Amongst the various channels, he picks out the relative strength of broad money growth, lower long-term interest rates, increased corporate bond and equity issuance and declines in inter-bank borrowing rates, as examples of the programme's positive impact.

The speech notes how the gilt purchase operations were designed to buy assets from the non-bank sector and at close to market prices. Paul Fisher notes that dividend payments to date have "...cumulated to a value around 5% of the total stock of purchases". He adds that: "These receipts were anticipated...and will contribute to repaying the original funding of the programme." But Paul Fisher says it is too early to say when that time will come: "At this time, it is not clear whether the next step with the asset purchase programme is most likely to be to sell the assets back or to buy more."

Looking ahead to when the MPC decides to tighten monetary policy, he says the MPC will likely choose to raise interest rates first. "Gilt sales would be started later and conducted in an orderly programme over a period of time. That would leave Bank Rate as the active or 'marginal' instrument of monetary policy." Paul Fisher notes that a decision will also have to be taken on how fast to sell the gilts. That, he says, "...would depend on the outlook for inflation at the time, so we cannot commit now to any particular scale or pace". But gilts sales will be co-ordinated closely with the Debt Management Office so as not to create unnecessary volatility in the market.

Turning to the financial implications of the programme, Paul Fisher notes that short-term fluctuations in the value of the portfolio wash out for the public sector as a whole. But the effect of gilt purchases was to push their price higher, while sales will have the opposite effect. He says: "The net effect will depend on the path of interest rates relative to those expected at the time of each buying operation but, given the policy objective, the result of the sales programme could easily be a cash deficit." He emphasises however that "...such an outcome would not mean the public finances have been made worse off". "The counterfactual story will never be known precisely but the scale of the boost to the economy means that the all-round financial benefit for the public finances should far outweigh any cash deficit that might be left at the end of the programme."

Key Resources

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http://www.bankofengland.co.uk/archive/Documents/historicpubs/speeches/2010/speech453.pdf