



BANK OF ENGLAND

News release

Press Office

Threadneedle Street

London EC2R 8AH

T 020 7601 4411

F 020 7601 5460

press@bankofengland.co.uk

www.bankofengland.co.uk

6 October 2011

Bank of England Maintains Bank Rate at 0.5% and Increases Size of Asset Purchase Programme by £75 billion to £275 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 increase the size of its asset purchase programme, financed by the issuance of central bank reserves, by £75 billion to a total of £275 billion.

The pace of global expansion has slackened, especially in the United Kingdom's main export markets. Vulnerabilities associated with the indebtedness of some euro-area sovereigns and banks have resulted in severe strains in bank funding markets and financial markets more generally. These tensions in the world economy threaten the UK recovery.

In the United Kingdom, the path of output has been affected by a number of temporary factors, but the available indicators suggest that the underlying rate of growth has also moderated. The squeeze on households' real incomes and the fiscal consolidation are likely to continue to weigh on domestic spending, while the strains in bank funding markets may also inhibit the availability of credit to consumers and businesses. While the stimulatory monetary stance and the present level of sterling should help to support demand, the weaker outlook for, and the increased downside risks to, output growth mean that the margin of slack in the economy is likely to be greater and more persistent than previously expected.

CPI inflation rose to 4.5% in August. The present elevated rate of inflation primarily reflects the increase in the standard rate of VAT in January and the impact of higher energy and import prices. Inflation is likely to rise to above 5% in the next month or so, boosted by already announced increases in utility prices. But measures of domestically generated inflation remain contained and inflation is likely to fall back sharply next year as the influence of the factors temporarily raising inflation diminishes and downward pressure from unemployment and spare capacity persists.

The deterioration in the outlook has made it more likely that inflation will undershoot the 2% target in the medium term. In the light of that shift in the balance of risks, and in order to keep inflation on track to meet the target over the medium term, the Committee judged that it was necessary to inject further monetary stimulus into the economy. The Committee therefore voted to increase the size of its asset purchase

programme, financed by the issuance of central bank reserves, by £75 billion to a total of £275 billion. The Committee also voted to maintain Bank Rate at 0.5%. The Committee expects the announced programme of asset purchases to take four months to complete. The scale of the programme will be kept under review.

The minutes of the meeting will be published at 9.30am on Wednesday 19 October 2011.

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 previous change in the size of that programme was an increase of £25 billion to a total of £200 billion on 5 November 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>.

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.

Governor's letter to the Chancellor

6 October 2011

Chancellor's letter to the Governor

HM Treasury website, 6 October 2011

Market Notice: Asset Purchase Facility: Gilt Purchases

6 October 2011