



BANK OF ENGLAND

News release

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9 February 2012

Bank of England maintains Bank Rate at 0.5% and increases size of Asset Purchase Programme by £50 billion to £325 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 £50 billion to a total of £325 billion.

In the United Kingdom, the underlying pace of recovery slowed during 2011, with activity falling slightly during the final quarter. Some recent business surveys have painted a more positive picture and asset prices have risen. But the pace of expansion in the United Kingdom's main export markets has also slowed and concerns remain about the indebtedness and competitiveness of some euro-area countries. A gradual strengthening of output growth later this year should be supported by a gentle recovery in household real incomes as inflation falls, together with the continued stimulus from monetary policy. But the drag from tight credit conditions and the fiscal consolidation together present a headwind. The correspondingly weak outlook for near-term output growth means that a significant margin of economic slack is likely to persist.

CPI inflation has fallen back from its September peak, declining to 4.2% in December. Inflation should continue to fall sharply in the near term, as the increase in VAT in January 2011 drops out of the twelve-month comparison. Inflation is then likely to decline further as the contribution of energy and import prices diminishes, while downward pressure from unemployment and spare capacity continues to restrain domestically generated inflation.

In the light of its most recent economic projections, the Committee judged that the weak near-term growth outlook and associated downward pressure from economic slack meant that, without further monetary stimulus, it was more likely than not that inflation would undershoot the 2% target in the medium term. The Committee therefore voted to increase the size of its programme of asset purchases, financed by the issuance of central bank reserves, by £50 billion to a total of £325 billion. The Committee also voted to maintain Bank Rate at 0.5%. The Committee expects the announced programme of asset purchases 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 15 February.

The minutes of the meeting will be published at 9.30am on Wednesday 22 February.

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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 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 £75 billion to a total of £275 billion on 6 October 2011.

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.

<http://www.bankofengland.co.uk/monetarypolicy/pdf/govletter120209.pdf>

http://www.hm-treasury.gov.uk/d/chx_letter_090212.pdf

<http://www.bankofengland.co.uk/markets/marketnotice120209.pdf>