



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

20 June 2012

Quarterly Bulletin - 2012 Q2

The 2012 Q2 issue of the Bank of England Quarterly Bulletin is published today.

The so-called “productivity puzzle” has been discussed by Bank policymakers on numerous occasions in recent months. Measured labour productivity in the United Kingdom has been persistently weak since the 2008/09 recession. Understanding whether this has arisen because of a demand shortfall or whether it has been accompanied by a fall in underlying productivity (and hence the supply potential of the economy), is a central issue for policymakers. The article in this edition – **UK labour productivity during and after the crisis – an international and historical perspective** - compares the UK experience following this recession to that of other countries, and to historic episodes of financial crisis. Amongst other things, it finds that persistently weak labour productivity is not a feature of previous financial crises, but has been a feature of the recent crisis for a number of economies including the UK.

For much of the past four years, CPI Inflation has been persistently above the 2% target set by the Government. This has led to concerns that inflation expectations might become less well anchored by monetary policy. An article in this edition – **How has the risk to inflation from inflation expectations evolved?** – looks at a range of indicators to assess how the risk to inflation from inflation expectations has evolved, by applying the framework previously set out in the Q2 2011 Quarterly Bulletin. Public awareness and understanding of the monetary policy framework more generally are key to the Bank’s success in achieving its monetary policy objectives. In this edition, the annual article reviewing the latest survey data for **public attitudes to monetary policy and satisfaction with the Bank** is published. The results suggest that the public’s awareness and understanding of the setting of interest rates has changed little since the survey began in 1999. But the February 2012 survey indicates that QE is less well understood. Since the onset of the financial crisis, satisfaction with the way in which the Bank has set interest rates to control inflation has fallen, but remains positive. It has also been more volatile over the past few quarters than has been observed previously.

Between March 2009 and May 2012, the Bank of England’s large scale asset purchases - under its policy commonly referred to as QE – have totalled £325bn. Identifying the impact of QE on gilt yields has become increasingly difficult as MPC announcements about the amount of assets the Bank intends to purchase are

now widely anticipated by financial markets, based on economic news and data releases. The article in this edition – **Using changes in auction maturity sectors to help identify the impact of QE on gilt yields** – tries to overcome this identification problem by using three ‘natural experiments’ associated with operational changes that contained news about the distribution of future gilt purchases (that is, those in March 2009, August 2009 and February 2012). This approach can be used to identify one of the channels through which QE affects gilt yields – known as the local supply channel. The results in this article show that the local supply channel is significant and is estimated to account for around half of the reduction in gilt yields due to QE. And the strength of this channel has remained broadly constant since QE was introduced in 2009.

Much work has been done in recent months by the authorities, payment systems and banks to address how banks can fail in an orderly manner. One aspect of this work is to ensure that any impact from bank resolutions to the continuity of payments for customers is minimised. The article - **Considering the continuity of payments for customers in a bank recovery or resolution** - highlights some areas where changes could be made so that payments schemes and banks, in conjunction with the authorities, are best prepared for future recovery and resolution scenarios.

Financial market sentiment worsened markedly since the last Bulletin amid a renewed focus in financial markets on the challenges facing the euro area. The **Markets and operations article** reviews developments in this area and also describes recent changes to intraday liquidity provision by the Bank of England in the CREST system and development of a Standardised Credit Support Annex to be used in over-the-counter derivatives transactions.

Note to Editors

Copies of the Quarterly Bulletin are available from:

Publications Group, Bank of England, Threadneedle Street, EC2R 8AH

(Tel: 020 7601 4030; Fax 020 7601 3298)

www.bankofengland.co.uk/publications/pages/quarterlybulletin/default.aspx

Key Resources

<http://www.bankofengland.co.uk/publications/Documents/quarterlybulletin/qb1202.pdf>