BANK OF ENGLAND

News release

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Quarterly Bulletin 2012 Q1

The 2012 Q1 issue of the Bank of England *Quarterly Bulletin* is published today. In the foreword to the *Bulletin*, Spencer Dale – the Bank's Chief Economist – writes:

"Maintaining price stability and maintaining financial stability are the two core purposes of the Bank of England. This edition of the Quarterly Bulletin discusses a number of considerations important in achieving those two goals. They include: understanding the potential drivers behind the UK economy's need to rebalance; explaining how the Special Surveys carried out by the Bank's Agents were used to explore various puzzles faced by policymakers during the financial crisis; and describing the way in which the Bank of England has responded to funding problems in the banking system during the crisis, and how this influenced the design of the liquidity insurance facilities we have today.

This *Bulletin* begins, as usual, by examining developments in financial markets. The **Markets and operations** article reviews developments in financial markets covering the period between the previous Bulletin and 9 March 2012. Financial market sentiment improved considerably over this period amid a range of actions by policymakers, both in the United Kingdom and abroad. This included a further easing of monetary policy, measures designed to mitigate risks to financial stability and agreement on a second IMF/EU assistance programme for Greece. The improvement in sentiment contributed to a rally across a range of asset prices, including both corporate bonds and equities. Activity in primary capital markets also rose and bank funding conditions improved. But concerns about the indebtedness and competitiveness of some euro-area countries persisted and remained a key influence on financial markets. The article also describes the most recent results from the Money Market Liaison Group survey of the sterling money market and examines developments in the market for unsecured floating-rate notes.

The *Inflation Report* and speeches by Monetary Policy Committee (MPC) members often discuss the need for the UK economy to rebalance. This stems from evidence that the size and structure of some trade and financial flows — between different sectors of the UK economy, and between the United Kingdom and the rest of the world — are unsustainable. Low national saving, a persistent current account deficit and the rapid expansion of balance sheets are all potential symptoms of the need for the UK economy to rebalance. The financial crisis appears to have prompted some rebalancing already, but more will be required at some point.

This article – **What might be driving the need to rebalance in the United Kingdom?** – sets out a framework for thinking about rebalancing and the factors that might give rise to it.

The Bank operates a nationwide network of Agents who act as the eyes and ears of the MPC across the length and breadth of the United Kingdom. The Bank's Agents speak to around 8,000 businesses over the course of each year and report their findings back to the MPC each month ahead of the policy meetings. In addition to their regular intelligence gathering, every few months the MPC commissions the Agents to conduct a Special Survey of businesses to address a particular issue or puzzle. An article in this edition – **Agents' Special Surveys since the start of the financial crisis** – looks at the Special Surveys that were commissioned by the MPC during and after the financial crisis. It discusses some of the puzzles faced by the MPC during this period and describes how the Special Surveys helped to shed light on these issues — some of which continue to represent significant sources of uncertainty today.

Commodity prices, especially oil prices, have played a very significant role in driving fluctuations in both UK output and inflation in recent years. But trying to predict how oil prices are likely to behave in the future is very difficult. When producing their central projections for GDP growth and inflation, the MPC assumes that oil prices follow the path implied by the market futures curve. In the past, however, oil prices have deviated significantly from that path. Unfortunately, none of the alternative approaches appear to perform consistently better. The article in this edition – **What can the oil futures curve tell us about the outlook for oil prices?** – describes what information the futures curve contains and considers the arguments for and against using it as an assumed path for oil prices in the MPC's central projections.

In November last year, the Bank of England held a conference to discuss the lessons learned about quantitative easing (QE) and the other unconventional monetary policies used during the global financial crisis. A number of central banks, including the Bank of England, and academics presented their research. The article in this edition – **Quantitative easing and other unconventional monetary policies: Bank of England conference summary** – summarises those presentations and the related discussions. Overall, the papers broadly supported the emerging consensus that QE and other unconventional monetary policies have helped to mitigate the macroeconomic effects of the global financial crisis. There is, however, considerable uncertainty about the precise magnitudes of the effects and the main mechanisms through which the policies operate, and a number of areas for further research were suggested.

In April 2008, the Bank of England introduced the Special Liquidity Scheme (SLS) to improve the liquidity position of the UK banking system. It did so by helping banks finance assets that had got stuck on their balance sheets following the closure of some asset-backed securities markets from 2007 onwards. The SLS was, from the outset, intended as a temporary measure, to give banks time to strengthen their balance sheets and diversify their funding sources. The Scheme terminated in January 2012 when the last SLS transactions expired. During the period in which the SLS was in operation, the Bank undertook a fundamental review of its framework for sterling market operations and developed a new set of facilities to provide ongoing liquidity insurance to the banking system. This article – The Bank of England's Special

Liquidity Scheme – explains the design and operation of the SLS and describes how that experience has influenced the design of the Bank's permanent liquidity insurance facilities.

This edition also contains a summary of the main points made by participants at the most recent Monetary Policy Roundtable hosted by the Bank of England and the Centre for Economic Policy Research, on 15 December 2011."

Note to Editors

Copies of the *Quarterly Bulletin* are available from:
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