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News release

7 August 2013

Bank of England provides explicit guidance regarding the future conduct of monetary policy

At its meeting on 1 August, the Bank of England's Monetary Policy Committee (MPC) voted to provide some explicit guidance regarding the future conduct of monetary policy.

The Committee intends at a minimum to maintain the current highly stimulative stance of monetary policy until economic slack has been substantially reduced, provided this does not entail material risks to either price stability or financial stability.

In particular, the MPC intends not to raise Bank Rate from its current level of 0.5% at least until the Labour Force Survey headline measure of the unemployment rate has fallen to a threshold of 7%, subject to the conditions below.

The MPC stands ready to undertake further asset purchases while the unemployment rate remains above 7% if it judges that additional monetary stimulus is warranted. But until the unemployment threshold is reached, and subject to the conditions below, the MPC intends not to reduce the stock of asset purchases financed by the issuance of central bank reserves and, consistent with that, intends to reinvest the cash flows associated with all maturing gilts held in the Asset Purchase Facility.

The guidance linking Bank Rate and asset sales to the unemployment threshold would cease to hold if any of the following three 'knockouts' were breached:

- in the MPC's view, it is more likely than not, that CPI inflation 18 to 24 months ahead will be 0.5 percentage points or more above the 2% target;

- medium-term inflation expectations no longer remain sufficiently well anchored;

- the Financial Policy Committee (FPC) judges that the stance of monetary policy poses a significant threat to financial stability that cannot be contained by the substantial range of mitigating policy actions available to the FPC, the Financial Conduct Authority and the Prudential Regulation Authority in a way consistent with their objectives.

The Committee will continue to set the level of Bank Rate and the size of the asset purchase programme each month, taking these criteria into account. The action taken by the MPC if any of these knockouts were breached would depend upon its assessment at the time as to the appropriate setting of monetary policy in order to fulfil its remit to deliver price stability. There is therefore no presumption that breaching any of these knockouts would lead to an immediate increase in Bank Rate or sale of assets.

Further information regarding the background to this decision can be found in the document *Monetary policy trade-offs and forward guidance* published alongside today's *Inflation Report*, available at
http://www.bankofengland.co.uk/publications/Documents/inflationreport/2013/ir13augforwardguidance.pdf
As previously announced on 1 August, and consistent with the policy guidance above, the Committee also

voted to maintain the official Bank Rate paid on commercial bank reserves at 0.5%, and to maintain the stock of asset purchases financed by the issuance of central bank reserves at £375 billion.

The minutes of the meeting will be published at 9.30am on Wednesday 14 August.

ENDS

Note to Editors

The Chancellor's latest remit for the MPC, issued on 20 March 2013, can be found at
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/185552/chx_letter_to_boe_monetary_policy_framework_200313.pdf.pdf