



BANK OF ENGLAND

News release

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7 February 2013

Bank of England maintains Bank Rate at 0.5% and the size of the Asset Purchase Programme at £375 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 maintain the stock of asset purchases financed by the issuance of central bank reserves at £375 billion.

Over the past year, there has been considerable volatility in quarterly output growth. Looking through the influence of temporary factors, overall output appears to have been broadly flat. In large part that reflects sharp falls in particular sectors of the economy that are unlikely to be repeated in 2013. In contrast, the combined output of the manufacturing and services sectors has grown modestly. Business surveys suggest the pace of expansion is likely to remain muted in the near term. The weakness in overall output sits in sharp contrast to continued strong employment growth, suggesting that the financial crisis may have had some impact on the effective supply capacity of the economy.

The MPC continues to judge that the UK economy is set for a slow but sustained recovery in both demand and effective supply, aided by a further easing in credit conditions – supported by the Bank's programme of asset purchases and the Funding for Lending Scheme – and some improvement in the global environment. But the risks are weighted to the downside, not least because of the challenges facing the euro area.

Inflation has remained stubbornly above the 2% target. Despite subdued pay growth, weak productivity has meant no corresponding fall in domestic cost pressures. And increases in university tuition fees and domestic energy bills, largely resulting from administrative decisions rather than market forces, have added to inflation more recently. CPI inflation is likely to rise further in the near term and may remain above the 2% target for the next two years, in part reflecting a persistent inflationary impact both from administered and regulated prices and the recent decline in sterling. But inflation is expected to fall back to around the target thereafter, as a gradual revival in productivity growth dampens increases in domestic costs and external price pressures fade.

The Committee discussed the appropriate policy response to the combination of the weakness in the economy and the prospect of a further prolonged period of above-target inflation. It agreed that, as long as domestic cost and price pressures remained consistent with inflation returning to the target in the medium term, it was appropriate to

look through the temporary, albeit protracted, period of above-target inflation. Attempting to bring inflation back to target sooner by removing the current policy stimulus more quickly than currently anticipated by financial markets would risk derailing the recovery and undershooting the inflation target in the medium term. The MPC's remit is to deliver price stability, but to do so in a way that avoids undesirable volatility in output. The Committee judged that its policy stance was fully consistent with that remit. The Committee agreed that it stood ready to provide additional monetary stimulus if warranted by the outlook for growth and inflation.

Against that backdrop, the Committee decided that it was appropriate to maintain Bank Rate at 0.5% and the size of the asset purchase programme at £375 billion in order to meet the 2% CPI inflation target over the medium term.

The Committee also noted that the Asset Purchase Facility's holdings of the March 2013 gilt would mature at the time of the Committee's next meeting. The Committee voted that it would re-invest the cash flows of £6.6 billion associated with this redemption.

The Committee's latest inflation and output projections will appear in the Inflation Report to be published at 10.30am on Wednesday 13 February.

The minutes of the meeting will be published at 9.30am on Wednesday 20 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 £50 billion to a total of £375 billion on 5 July 2012.

Information on the Asset Purchase Facility can be found on the Bank of England website at <http://www.bankofengland.co.uk/monetarypolicy/Pages/qe/default.aspx>.

The Bank will continue to offer to purchase high-quality private sector assets on behalf of the Treasury, financed by the issue of Treasury bills, in line with the arrangements announced on 29 January 2009 and 29 November 2011.

The £6.6 billion cash flow comprises the redemption payment on the gilt, as well as the cash flow resulting from the indemnity provided by HM Treasury to the Bank of England in order to cover any difference between the redemption payment and the original amount invested.