

April 9, 2009

BANK OF ENGLAND

No rate cut: quantitative easing is the preferred route

ACCORDING TO THE BANK OF ENGLAND (BoE)

- The monetary committee decided to keep the official interest rate paid on commercial banks' reserves at 0.50%.
- The £75B (US\$110B) quantitative easing program financed by creating bank reserves continues.
- To date, £26B of the program has been achieved. The committee plans to take two more months to complete it.

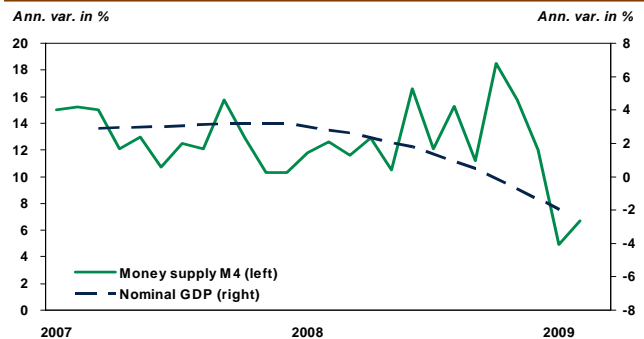
COMMENTS

As forecast, the BoE did not change the target for its key interest rate, opting to favour its quantitative easing program. Note that BoE Governor Mervyn King has said many times since the March meeting that no further rate cuts could be expected. The main reason given is that lower key rates would only create distortions in the credit market, as deposit rates (which are lower than key rates) could not be taken down any further. The BoE therefore intends to continue with its monetary reflation efforts via quantitative easing. The idea is to boost money supply growth to a level that is compatible with potential nominal GDP growth. Due to the credit crisis and economic downturn, the banks are more reticent to let go of liquidity and extend loans. The BoE hopes that the program will be big enough to prompt commercial banks to support consumers and businesses.

The latest economic data are starting to show some encouraging stabilization in the housing market. Among other things, loan and mortgage refinancing applications are up, and some indicators show that home prices jumped in February. However, households finally lost their resilience, with the annual change in retail sales going from 3.8% in January to just 0.4% in February. Under these circumstances, the BoE will have to continue with its efforts to turn around what promises to be the worst recession since the last world war.

Implications: Inflation is continuing to post upside surprises, but the economic downturn and impacts of the drop in energy prices should make price growth slow sharply and even lead

The BoE is aiming to restore money supply growth



Sources: Datastream, Bank of England and Desjardins, Economic Studies

The pressure on consumer spending is still downward



Sources: Datastream and Desjardins, Economic Studies

to a risk of deflation. As a result, the BoE will retain its monetary easing program as long as there is still a clear risk of seeing inflation move well below the 2.0% target over the medium range.

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NOTE TO READERS: The letters **k**, **M** and **B** are used in texts and tables to refer to thousands, millions and billions respectively.

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EXCERPT FROM THE BANK OF ENGLAND PRESS RELEASE


“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 continue with the programme, announced on 5 March, of asset purchases totalling £75 billion financed by the issuance of central bank reserves.

The Committee noted that since its previous meeting a total of just over £26 billion of asset purchases had been made and that it would take a further two months to complete that programme [...]”

**Table 1
Schedule and key rates**

Date	Central Bank	Decision	Rate
January 2009			
21	Bank of Japan	s.q.	0.10
28	Reserve Bank of New Zealand	-150 b.p.	3.50
28	Federal Reserve	s.q.	0.00 / 0.25
February 2008			
3	Reserve Bank of Australia	-100 b.p.	3.25
4	Bank of Norway	-50 b.p.	2.50
5	Bank of England	-50 b.p.	1.00
5	European Central Bank	s.q.	2.00
11	Bank of Sweden	-100 b.p.	1.00
18	Bank of Japan	s.q.	0.10
20	Bank of Mexico	-25 b.p.	7.50
March 2008			
2	Reserve Bank of Australia	s.q.	3.25
3	Bank of Canada	-50 b.p.	0.50
5	Bank of England	-50 b.p.	0.50
5	European Central Bank	-50 b.p.	1.50
11	Reserve Bank of New Zealand	-50 b.p.	3.00
11	Bank of Brazil	-150 b.p.	11.25
12	Swiss National Bank	-25 b.p.	0.25
17	Bank of Japan	s.q.	0.10
18	Federal Reserve	s.q.	0.00 / 0.25
20	Bank of Mexico	-75 b.p.	6.75
25	Bank of Norway	-50 b.p.	2.00
April 2008			
2	European Central Bank	-25 b.p.	1.25
6	Bank of Japan	s.q.	0.10
7	Reserve Bank of Australia	-25 b.p.	3.00
9	Bank of England	s.q.	0.50

s.q.: status quo; b.p. : basis points
Source: Desjardins, Economic Studies

**Table 2
Coming soon**

Date	Central Bank
April 2009	
17	Bank of Mexico
21	Bank of Sweden
21	Bank of Canada
29	Reserve Bank of New Zealand
29	Bank of Brazil
29	Bank of Japan
29	Federal Reserve
May 2009	
5	Reserve Bank of Australia
6	Bank of Norway
7	Bank of England
7	European Central Bank
15	Bank of Mexico
21	Bank of Japan
June 2009	
2	Reserve Bank of Australia
4	Bank of England
4	European Central Bank
4	Bank of Canada
10	Bank of Brazil
11	Reserve Bank of New Zealand
15	Bank of Japan
17	Bank of Norway
18	Swiss National Bank
19	Bank of Mexico
24	Federal Reserve
July 2009	
2	European Central Bank
2	Bank of Sweden

Source: Desjardins, Economic Studies