

July 9, 2009

BANK OF ENGLAND

Quantitative easing program is not expanded

ACCORDING TO THE BANK OF ENGLAND (BoE)

- The monetary policy committee decided to keep the official interest rate paid on commercial banks' reserves at 0.50%.
- The £125B (US\$202B) quantitative easing program financed by creating bank reserves continues.
- Since its launch in March, the program has bought back £112B. The committee plans to take another month to complete it.
- The committee will then review its position and render a decision on extending the program at its meeting in August, when it releases its projections on inflation.

COMMENTS

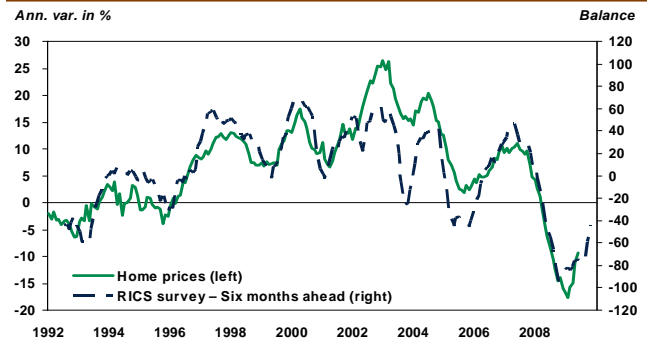
In a move expected by private sector forecasters, the BoE left the target for its key interest rate unchanged, opting to favour its quantitative easing program.

Some financial market stakeholders were disappointed, as they expected the BoE to increase its quantitative easing program to £150B, the maximum amount authorized by the British government. But improvements in the latest statistics on the U.K. economy compelled the monetary policy committee to be prudent. The BoE's governor, Marvin King, recently indicated that the program was beginning to bear fruit. The bond market reacted swiftly with 10-year gilt rates rising from 4.60% to 4.75%, boosting the pound sterling from US\$1.60 to close to US\$1.63.

The most recent economic data continue to show some encouraging stabilization in the housing market. Loan and mortgage refinancing applications are up, and some indicators are signalling that home prices posted a third monthly gain in four months in June. However, the game has not been won yet, by any means. Since banks are still hesitant to grant loans, the outlook for household spending remains uncertain. After posting monthly increases of close to 1% in March and April, retail sales tumbled 0.7% in May.

Implications: Improvements in the economic statistics in the United Kingdom and elsewhere across the globe

Increased confidence in the housing market bodes well



Sources: Nationwide, Royal Institute of Chartered Surveyors and Desjardins, Economic Studies

prompted the BoE to wait for its projections on inflation to be published in August before making changes to its monetary policy. With the gap in output deepening further, the risks of inflation are clearly trending downward. However, given inflation's resilience and the markets' concerns about the inflationary nature of quantitative policies, the BoE could very well continue to monitor the situation while letting the program run its course.

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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 its programme of asset purchases totalling £125 billion financed by the issuance of central bank reserves.

The Committee expects that the announced programme will take another month to complete. The Committee will review the scale of the programme again at its August meeting, alongside its latest inflation projections.”

**Table 1
Schedule and key rates**

Date	Central Bank	Decision	Rate
April 2008			
29	Reserve Bank of New Zealand	-50 b.p.	2.50
29	Bank of Brazil	-100 b.p.	10.25
29	Bank of Japan	s.q.	0.10
29	Federal Reserve	s.q.	0.00 / 0.25
May 2008			
5	Reserve Bank of Australia	s.q.	3.00
6	Bank of Norway	-50 b.p.	1.50
7	European Central Bank	-25 b.p.	1.00
7	Bank of England	s.q.	0.50
15	Bank of Mexico	-75 b.p.	5.25
21	Bank of Japan	s.q.	0.10
June 2008			
2	Reserve Bank of Australia	s.q.	3.00
4	European Central Bank	s.q.	1.00
4	Bank of England	s.q.	0.50
4	Bank of Canada	s.q.	0.25
10	Reserve Bank of New Zealand	s.q.	2.50
10	Bank of Brazil	-100 b.p.	9.25
15	Bank of Japan	s.q.	0.10
17	Bank of Norway	-25 b.p.	1.25
18	Swiss National Bank	s.q.	0.25
19	Bank of Mexico	-50 b.p.	4.75
24	Federal Reserve	s.q.	0,00 / 0,25
July 2008			
2	European Central Bank	s.q.	1.00
2	Bank of Sweden	-25 b.p.	0.25
7	Reserve Bank of Australia	s.q.	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
July 2009	
14	Bank of Japan
17	Bank of Mexico
21	Bank of Canada
22	Bank of Brazil
29	Reserve Bank of New Zealand
August 2009	
4	Reserve Bank of Australia
6	European Central Bank
6	Bank of England
10	Bank of Japan
12	Bank of Norway
12	Federal Reserve
21	Bank of Mexico
September 2009	
1	Reserve Bank of Australia
2	Bank of Brazil
3	European Central Bank
9	Reserve Bank of New Zealand
9	Bank of Sweden
10	Bank of England
10	Bank of Canada
16	Bank of Japan
17	Swiss National Bank
18	Bank of Mexico
23	Bank of Norway
23	Federal Reserve
October 2009	
6	Reserve Bank of Australia
8	Bank of England

Source: Desjardins, Economic Studies