BoE: Third Time Quiet

- **After two off-calendar rate decisions, at today's regularly scheduled meeting, the Bank of England's Monetary Policy Committee kept the Bank Rate on hold at 0.1%, an all-time low, and did not announce any new additional measures.**
- **This report summarizes key actions in response to the COVID-19 pandemic taken by the Bank to date during March.**

LETTING THE DUST SETTLE

The Bank of England's (BoE) Monetary Policy Committee (MPC) met twice off-calendar, once on March 11, to enhance its announcement effects in coordination with the Johnson Government's 2020 budget, and again on March 19, both times to bring forward timely and substantial policy measures in response to the COVID-19 pandemic.

Today, the MPC confirmed that it went ahead with its regularly scheduled meeting that ended yesterday, but did not announce anything new. It held the Bank Rate at 0.1%, its lowest-ever level and took note of recent developments. It cautioned that "there is little evidence as yet to assess the precise magnitude of the economic shock from COVID-19." Nevertheless, the MPC acknowledged that some UK economic activity indicators for March had already fallen "sharply" to all-time lows even before the introduction of the most recent social-distancing measures. Meanwhile, "significant" moves in financial market prices and implied volatilities had, together, "materially" tightened UK and global financial conditions.

Today's relatively uneventful meeting provides little foreshadowing of the MPC's future inclinations, which will remain entirely dependent on COVID-19 developments. The BoE has more arrows in its quiver and will use them, if necessary.

RAPIDLY EVOLVING FORECASTS

Rapidly developing events of the last few weeks have led us to mark down our forecasts substantially and we now forecast a sharp contraction in Q2 that leads to a recession in 2020 (table 1). The series of successive forecast revisions over the last few weeks (table 2) has been driven both by the global advance of COVID-19 and the UK government's change in strategy from the pursuit of herd immunity to a lockdown of major parts of the economy in order to stop the spread of the virus. We assume extensive controls will persist well into May or June, with normal economic activity fully resuming only mid-way through Q3. This appears to be a longer shutdown than in consensus assumptions, but we believe it is consistent with current actions and epidemiological models on the time required to "flatten the curve". Clearly, the January *Monetary Policy Report* projections are seriously stale. The next *MPR* is not due until May 7, but given the BoE's new proclivity for off-calendar moves, we may see a forecast update before then.

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Table 1

BNS UK Forecast - March 25, 2020	2018	2019	2020f	2021f
Real GDP (annual % change)	1.3	1.4	-3.1	1.5
CPI (y/y %, eop)	2.1	1.8	0.6	1.5
Central bank policy rate (%, eop)	0.75	0.75	0.10	0.10
UK pound (GBPUSD, eop)	1.28	1.33	1.18	1.25

Source: Scotiabank Economics.

TAKING STOCK OF MARCH'S BoE MOVES

Recapping, over the last two weeks, the BoE has made a sweeping set of moves that, all together, have lowered the Bank Rate by 65 bps and provided the equivalent of at least another 100 to 150 bps of easing to financial conditions.

- **First inter-meeting rate cut, March 11.** The MPC decided to **cut the Bank Rate** by 50 bps from 0.725% to 0.25%, the lowest ever at that point. Minutes from the meeting are here.
- **Liquidity measures, March 11.** The Banks' three major policy committees also announced on March 11 measures that together could see GBP 590 bn of additional liquidity—equivalent to a shade over 20% GDP—injected into the UK financial system through new and existing BoE instruments:
    - The BoE launched the **Term Funding Scheme with additional incentives for SMEs (TFSME),** which over 12 months will provide four-year funding at rates close to the Bank Rate in volumes equivalent to at least 5% of participating financial institutions' stock of real-economy lending. The TFSME is expected to provide GBP 100 bn or more of term funding.
    - The BoE's Financial Policy Committee (FPC) further **moved to pull down the countercyclical capital buffer (CCyB) rate** on banks' exposure to UK borrowers from 1% to 0%. The FPC noted that it expects to maintain the 0% rate for at least a year and that any subsequent increase would not take effect until March 2022 at the earliest, thereby delaying indefinitely a rise to 2% that had been anticipated by December 2020. The release of the CCyB is expected to allow for up to GBP 190 bn in additional bank lending to business, 13 times banks' net business lending during 2019.
    - The Bank also noted that **financial institutions have pre-positioned collateral** that would enable them to borrow around GBP 300 bn from existing BoE credit facilities.
- **USD swap lines, March 15.** The BoE, along with the Bank of Canada, Bank of Japan, ECB, Fed, and SNB, revived post-2008 **USD swap lines** with the addition of 84-day USD repo operations to complement a 1-week maturity option.
- **Change of Governor, March 15.** March 15 saw Gov. Carney's last day at the helm of the Bank of England, with his successor Andrew Bailey taking over on March 16.

Table 2
Rapidly evolving forecast revisions

	2018	2019	2020f	2021f
BNS UK Forecasts - March 11, 2020				
Real GDP (annual % change)	1.3	1.4	0.9	1.5
CPI (y/y %, eop)	2.1	1.8	1.3	1.8
Central bank policy rate (%, eop)	0.75	0.75	0.10	0.10
BNS UK Forecasts - March 20, 2020				
Real GDP (annual % change)	1.3	1.4	-1.5	2.1
CPI (y/y %, eop)	2.1	1.8	0.6	1.6
Central bank policy rate (%, eop)	0.75	0.75	0.10	0.10
BNS UK Forecasts - March 25, 2020				
Real GDP (annual % change)	1.3	1.4	-3.1	1.5
CPI (y/y %, eop)	2.1	1.8	0.6	1.5
Central bank policy rate (%, eop)	0.75	0.75	0.10	0.10
BoE January MPR Forecast				
Real GDP (annual % change)	1.3	0.8	1.5	1.8
CPI (y/y %, eop)	1.5	1.5	2.0	2.3
LFS unemployment rate (%, eop)	3.75	4.00	3.75	3.50
Output gap (% potential GDP)*	-0.25	-0.50	0.25	0.50
Bank Rate (%, eop)**	0.75	0.75	0.60	0.50

* +'ve = excess demand, -'ve = excess supply.
**The path for the bank rate implied by forward market interest rates. The curves are based on overnight indexed swap rates. Forecasts in Jan. '20 MPR refer to Q1 of the respective year.
Source: Scotiabank Economics.

- **CCFF announced, March 17.** BoE and Treasury announced the creation of the **COVID-19 Corporate Financial Facility (CCFF)** to purchase commercial paper of up to one-year maturity issued by non-financial institutions, with a view to ensuring that they can meet current expenses. The CCFF is a Treasury facility, implemented by the BoE and funded by the issuance of reserves that will last for an initial 12 months.

- **Second inter-meeting rate cut, March 19.** In a precedent-setting first case of a second inter-meeting move, the BoE **cut the Bank Rate** by another 15 bps from 0.25% to 0.10%, its effective lower bound. Minutes for the March 19 meeting were released today and are available here.

- **Restarting QE, March 19.** The MPC announced its intention to **increase, as soon as possible, its stock of purchased assets by GBP 200 bn**, raising the total from GBP 445 bn to GBP 645 bn. The GBP 200 bn increment is the largest-ever one-off increase in the BoE's QE programme: the biggest prior increase had been GBP 75 bn. New purchases will focus on UK government bonds and have already begun, which will offset stepped-up government borrowing needs over the next year and curb any upward drift in long-term yields.

- **Enlarging TFSME, March 19.** The MPC voted unanimously to **enlarge the TFSME scheme** financed through the issuance of BoE reserves in order to improve the pass-through of the two reductions in the Bank Rate. Specifically, the initial borrowing allowance of the scheme was increased from 5% to 10% of the participants' stock of real-economy lending to support credit provision to households and businesses on terms near the new Bank Rate.